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**TECHNICAL ASSISTANCE TO  
THE ALEXANDRA RENEWAL PROJECT,  
JOHANNESBURG, SOUTH AFRICA**

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## **Abstract**

This report presents the findings and recommendations of the financial and institutional review of the Alexander Renewal Project (ARP). It recommends improvements to the flow of funds from all sources to the ARP and proposes a funding model, which includes the mechanism for the flow of national, provincial and local government funds. Focus has been on deriving overall financing arrangements applicable to all urban nodes. Improvements to the institutional arrangements for ARP also have been recommended. These involve defining, more precisely, the roles and responsibilities of the three levels of government; institutionalizing the same through a memorandum of understanding between national, provincial and local government; recommending a staffing structure for the Office of the Director of ARP within the City of Johannesburg and the resolution of tensions within the current institutional and organizational arrangements. Improvements needed to the concept of precinct management, including the relationships with other units and institutions and the roles and scope of work for precinct management teams are made. Finally the report examines and refines the proposed approach to the upgrading of backyard shacks within Alexandra from a financial and institutional perspective.

# **FINAL REPORT**

## **Preface**

This Final Report presents the findings of the Institutional, Policy and Finance Adviser engaged under a USAID funded technical assistance package to the Alexandra Renewal Project (ARP). It was drafted and discussed at the conclusion of the second input to the ARP, which was conducted between April 23 and May 24, 2002 in the field. Additional home office time was spent in preparing this report. The Advisor was one of a three-person technical assistance team, which also comprised an Urban Planning Advisor and an Engineering and Implementation Advisor.

Since the report is aimed at both USAID and the ARP team, it includes background information on aspects of the project already known to the ARP team.

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Monty Narsoo

Any errors and omissions are the responsibility of the author.

## ACCRONYMS AND ABBREVIATIONS

ARP	Alexandra Renewal Project
CBO	Community Based Organisation
CID	City Improvement District
CLO	Community Liaison Officer
CMIP	Consolidated Municipal Infrastructure Programme
DAURP	Director of the Alexandra Presidential Urban Renewal Project, City of Johannesburg
DMU	Development Management Unit
DORA	Division of Revenue Act
DPLG	Department of Provincial and Local Government
FC	Functional Convenor
GJMA	Greater Johannesburg Metropolitan Area
IDP	Integrated Development Plan
LED	Local Economic Development
LIDP	Local Integrated Development Plan
MEC	Member of Executive Committee
MLA	Malulake, Luthuli and Associates
MMC	Member of Mayoral Committee
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NGO	Non-government Organisation
PM	Programme Manager, Alexandra Renewal Project, Department of Housing, Gauteng Province
RCA	Reconstruction Area
SDF	Spatial Development Framework
SMDF	Strategic Metropolitan Development Framework
TA	Technical Assistance
TOR	Terms of Reference
UK	United Kingdom of Great Britain and Northern Ireland
USAID	United States Agency for International Development
WB	World Bank

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## 1. INTRODUCTION

### 1.1 Purpose of Report

- 1.1.1 This Final Report is submitted to the United States Agency for International Development (USAID), through Mega-Tech/South Africa as the contractor for consulting services. Mr. Royston A. C. Brockman, the Institutional, Policy and Finance Adviser to the Alexandra Renewal Project (ARP) prepared it. Key findings and recommendations are presented for the information of the Programme Manager (PM) of ARP and the Director of the Alexandra Presidential Urban Renewal Project (DAURP). This report was produced after the conclusion of the second scheduled visit to the Republic of South Africa.
- 1.1.2 Mr Brockman first arrived in Johannesburg on the 2<sup>nd</sup> March 2002 and departed the 23<sup>rd</sup> March 2002. This visit was carried out together with that of the Planning Advisor, but without the inputs of the Engineering Advisor, the third member of the consultant's team. For the second visit Mr Brockman arrived in Johannesburg on the 23<sup>rd</sup> April 2002 and departed on the 25<sup>th</sup> May 2002. This input was undertaken with those of the Urban Planning Advisor and the Engineering and Implementing Advisor. The second visit was one of providing hands on advice and guidance to members of the ARP Team, building on the findings of the first visit and responding to priority needs as they arose. Mr Brockman worked with a number of senior officials during the second mission. These, together with others contacted during the first visit are listed in **Annex 1**.
- 1.1.3 A workshop on the public financing of urban renewal was held during the visit on May 20<sup>th</sup> at the Johannesburg Civic Theatre. Participants were from the national government and provincial and local governments, where the identified urban nodes are located. A summary of the findings and output of the workshop is outlined in Chapter 2 of this report while further details are contained in **Annexes 2 to 5**.

### 1.2 Objective

- 1.2.1 The objective of the technical assistance (TA) is to provide the ARP staff with access to international best practices and comparative experience in the institutional and financial arrangements and policy frameworks for the planning and implementation of large, complex upgrading projects.

### 1.3 Scope of Work

- 1.3.1 The scope of work followed was that set out in the contract for consulting services<sup>1</sup> and involved the consultant working directly with the ARP staff on the following tasks:
- *Financing arrangements and requirements* - the evaluation of existing arrangements and future requirements in light of international experience.
  - *Institutional framework* - identification of areas in which the existing institutional arrangements can be improved to avoid overlapping functions and conflicts, and/or where they do not meet international best practices.

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<sup>1</sup> General Management Assistance Contract between MEGA-TECH, Inc. and Royston Brockman, 2002.

1.3.2 This report combines the deliverables required under the assignment; these are:

- Recommended improvements regarding flow of funding from all sources to the ARP on a multi-year basis and with respect to all urban nodes, and measures to mobilize non-fiscal financing including possible sources for cost recovery, and related financial aspects.
- An institutional arrangements document discussed with key actors from the ARP and other concerned participants from the various spheres of government.

1.3.3 Discussions with the PM, DAURP and the MLA Consultants' Project Coordinator led to a clarification of the expected outputs. These were further refined at a meeting with the PM and Mr M. Narsoo then representing the National Department of Housing on May 1, 2002 to bring a clearer focus to the assistance. From this meeting, the consultant agreed to briefly examine the proposed approach for upgrading of backyard shacks from the financial and institutional perspective, including the security and servicing options, institutional support needed and housing and development finance issues. The findings of this work are also presented in this report.

## 2. FINANCIAL ASPECTS

### 2.1 Content of Chapter

- 2.1.1 Financial aspects discussed in this section cover (i) the recommendations and output of a workshop held during the visit on funding of the urban renewal program; (ii) the need to update the cost estimates for ARP and prepare a detailed financing plan; and (iii) a short discussion of incentives for business within Alexandra township area. Each is discussed below.

### 2.2 Workshop on Financing Urban Renewal

#### Objective, Programme and Participants

- 2.2.1 A major part of the work on the financial aspects of the urban renewal programme involved preparing for and participating in a workshop on the public financing of the programme. The workshop was held on May 20<sup>th</sup>, 2002 at the Civic Theatre in Johannesburg from 9.00 a.m. until 1.00 p.m. Its objective was to formulate and agree an approach towards the funding of the urban nodes programme focusing on the sources and methods of allocating intergovernmental transfers.
- 2.2.2 Mr Monty Narsoo was the moderator of the workshop, the programme of which included a presentation on the approach towards the use of intergovernmental transfers to finance the development of the urban nodes, individual presentations from a number of people involved in the urban nodes and allowed time for open floor discussions.
- 2.2.3 Participants included representatives from the Department of Provincial and Local Government; Gauteng, Western Cape, Eastern Cape and Northern Cape Provincial Governments; and the Municipalities of Johannesburg, Cape Town and Buffalo City. **Annex 2** contains the workshop objectives, the programme and a list of participants. **Annex 3** is the formal paper produced by this author for the workshop and **Annex 4** reproduces the presentation made.

#### Key Findings

- 2.2.4 Key findings of the workshop were that:
- *Appropriate mechanisms to ensure that adequate capital investment funds are programmed and available for the renewal of each prioritised urban node are needed.* The participants saw the need for mandating central transfers for capital investment grants for urban renewal through the Division of Revenue Act (DORA). The amalgamation of grant funds in some form is needed, probably through the proposed consolidated infrastructure grant. The issue of the equitable share was raised. Since it is an unconditional grant, it was questioned as to whether or not DORA can legally prescribe specific allocations for the urban nodes.
  - *Central policy, programming and technical support functions are required at the central level within the Department of Provincial and Local Government (DPLG).* Many of the issues raised during the workshop stemmed from the lack of effective programme management at the national level for urban renewal. There is a need for DPLG to prepare an overall contextual framework for the programme and

issue guidelines for business planning at the nodal level. There was a clear call for resources to be made available to the nodes to prepare business plans and undertake project feasibility studies, perhaps through a nodal institutional assistance fund. With the exception of ARP, business plans for other nodes have been prepared for specific projects rather than in a holistic manner. Suggestions were made for a “trouble shooting” technical assistance team within DPLG. This raised the issue of what kind of national intervention is needed to best satisfy the demands of the programme. Intervention needs to be downward through the three spheres of government, where urban renewal is focussed within each. A general comment, endorsed by all, concerned the need to make the urban renewal forum more acceptable to the teams. Clear linkages too are needed between financial and institutional arrangements, where the roles and responsibilities need to be clarified between national, provincial and local governments for all nodes.

- *A long-term investment programme and financing plan was needed for the national urban renewal programme.* This would establish the appropriate scale of public resources needed for implementation. Not only would it determine the demand for national resources, but also indicate the extent that provincial funds and local government resources would be required and from which sources they should come. The plan should be prepared with the participation of the concerned nodal teams and represent the consolidation of the outputs of the business plans for each.
- *Programmes and the context for urban renewal differ widely between nodes.* The development of the urban nodes is at different stages in terms of institutional arrangements and implementation status. ARP is the most advanced with an approved business plan and an operational organisational structure. ARP has funds allocated and is implementing some of its priority projects. Other nodes are not at such an advanced stage and have neither approved business plans nor an effective organisational set up. The scale of the problem differs considerably between areas relative to local resource availability. Eastern Cape has far less resources than Gauteng and Western Cape, but the scale of the problem in the nodes is similar. Furthermore, solutions to the problems often do not rest with the nodes. For instance, relocation needs and land availability require policy changes and resources to be allocated from elsewhere.

## Output

2.2.5 The key output of the workshop was the production of a paper, which summarises the preferred approach towards the allocation of intergovernmental transfers to provincial and local governments to fund the renewal of the urban nodes. **Annex 5** reproduces of this paper, which will be discussed within DPLG. Its basic recommendations are that:

- Allocations of grant funds for urban renewal nodes be incorporated in the DORA, by indicating a minimum percentage or amount of funds to be allocated from each pertinent grant source for those urban nodes with approved business plans.
- Provincial housing subsidy and social services allocations would follow the same approach.
- Specific infrastructure allocations for urban renewal should be consolidated into one unified grant under the budget of the DPLG. Municipalities would allocate matching funds.

- Additional allocations are made under the equitable share formula to finance incremental operations and maintenance expenditures resulting from the improvement of public infrastructure, facilities and services under the urban renewal programme.

2.2.6 The next steps to support the proposed approach would be that each urban node planning and implementation team should:

- Complete the overall business plan for the node, incorporating detailed project cost estimates.
- Prepare an overall financial plan showing the sources of funds for each programme and major project.
- Prepare estimates of incremental operations and maintenance cost schedules for assets developed and programmes implemented under the urban renewal programme and establish the additional amount of equitable share funding needed to support such expenditures.

2.2.7 DPLG should consolidate the funding estimates of each urban node and prepare a programme wide investment and financing plan. The methodology for this is summarised as **Annex 6**.

2.2.8 The paper concludes that agreement was needed between the national, provincial and local governments on the way forward and formal approval of the approach should be sought from the National Treasury. This would involve action by DPLG to:

- Finalise the concept paper on the proposed funding arrangement.
- Secure agreement to the approach by the concerned provincial and local governments.
- Hold discussions with the National Treasury on the approach and incorporate relevant concerns.
- Finalise the agreement between concerned provinces, municipalities and the National Treasury.
- Use the approach to allocate funds to urban nodes in the 2003 DORA for budget year 2003/04.

## **2.3 ARP Cost Estimates and Financing Plan**

2.3.1 The latest cost estimates for the ARP, based on specific business plans for each functional area, indicate that the total cost of ARP would be almost R 3 billion, with funding as follows:

- National Government, R 1.3 billion.
- Gauteng Province, R 0.8 billion from the provincial housing and social services budgets.
- City of Johannesburg, R 0.8 billion from the metro budget (largely through the delivery of services).

2.3.2 There are uncertainties among agencies as to what constitutes the above national funding and whether or not it relates to “gearing” that represents funds, which would be committed by departments, agencies, utilities and corporations under their normal programmes of work. Nevertheless the City of Johannesburg indicates that much of the proposed R800 million that they are expected to contribute will be new money. The total expenditure is to be disbursed over a proposed seven-year implementing period for the ARP. The City of Johannesburg has committed over R100 million for financial year 2002/03, while Gauteng province is proving a further R100 million for the same financial year.

2.3.3 At present cash is not a problem for the ARP, since funds are being made available by Gauteng Province and amounts are committed both through the housing subsidy money and specific appropriations for the ARP<sup>2</sup>. In addition funds under the Human Resettlement and Redevelopment Pilot Programme are being utilised for ARP. Operating expenses of the City and the Province are being paid by both agencies. Nevertheless, until funds are committed in the longer-term, problems are likely to emerge when major expenditure programmes are underway. A start in this process would be to prepare a detailed financing plan for the ARP, and for the various agencies of government to commit to such a programme of investment. The investment programme and financing plan would represent the consolidation of the functional areas business plan projections. Iterations may be necessary should the demand for resources exceed expected supply. The ARP team should prepare the plan, once all revised functional business plans have been submitted.

2.3.4 More specifically, this task entails:

- The preparation of a detailed financing plan for the ARP for each year of implementation. This would indicate, for each cluster and functional area, and in the earlier years the actual projects, the capital investment requirements on a year-by-year basis. Associated incremental operating and maintenance costs too would be included.
- The identification of funding sources to match the expenditure estimates, clearly indicating the detailed sources, from which level of government and through which department, agency, or utility they would be allocated. Where the private sector or civil society is expected to partner the government, these sources, too, should be identified. Both capital and operating fund requirements would be identified.
- The identification of potential donor funding, if any, would be undertaken separately and individual project appraisals undertaken for each using consultants if necessary. A recent report<sup>3</sup> that contains a brief overview of donor funding in South Africa, has identified key areas of support needed and matched with the most likely donor. The report contains recommendations on suitable mechanisms and channels for engaging with the identified donors. This document provides the basis for further work by the ARP team.

<sup>2</sup> The following amounts have been approved under Vote 7 of the 2002/03 Budget of the Province:

<b>Programme</b>	<b>2001/02 Preliminary Outcome</b>	<b>2002/03 Budget R'000</b>	<b>2003/04 MTEF R'000</b>	<b>2004/05 MTEF R'000</b>
Housing Subsidy	74,000	75,000	100,000	150,000
Block allocation	29,083	24,110	22,121	23,175
<b>Total</b>	<b>103,083</b>	<b>99,110</b>	<b>122,121</b>	<b>173,175</b>

<sup>3</sup> Alexandra Urban Renewal Project Donor Appraisal, February 2002, Lala Steyn.

## 2.4 Incentives for Business

### 2.4.1 Successful urban renewal depends on the demand and supply processes that work within a city:

- Demand side will be determined by the ability of the City of Johannesburg to retain local expenditure and to attract spending from outside. This can be the demand for industrial production or the output of the service sector. Efforts to promote Alexandra aim to attract new investment, for example the development of Pan Africa with an emphasis on sustaining new economic activity to the area. This represents an economic promotion focus.
- Supply side covers the investment needed to improve existing infrastructure, the redevelopment of land into its most productive use, investment in people with increased and appropriate training. This is a focus on poverty alleviation.

Both aspects have been incorporated into the development proposals for ARP.

### 2.4.2 The key to the success of urban renewal is poverty alleviation through economic regeneration. International experience shows that this is most successful when:

- *Derelict land grants* are available to finance some or all of the costs of bringing land back into productive use. These can be made available to the local government or the private sector in special areas designated in need of assistance. Experience from the United Kingdom (UK) shows that local government have been the major users of such grants while the take up by the private sector has been low.
- *Urban development grants* that encourage private sector resources into urban development, through the availability of specific contributions from the public sector. Such grants have been mainly for physical regeneration, where private sector investments are much greater than those needed from the public sector. These grants help to stimulate private sector investment, particularly to encourage inner city housing in locations where such development would not have occurred otherwise. In the UK, these grants have been made available from the national government to offset specific disadvantages of inner city sites and to improve a development project's viability.
- *There is a relaxation of regulations.* "Enterprise Zones" have been created in many countries to reduce the "tax" burden on business through the relaxation of planning controls and the provision of tax benefits. In a number of cases, specific incentives include: (i) exemption from property taxes; (ii) 100 percent allowances for corporation and income tax purposes from capital expenditures on industrial and commercial buildings; (iii) simplification of the planning approvals system; and (iv) a reduction in government demands for statistical information.

### 2.4.3 In establishing appropriate programmes and incentives for the economic regeneration of Alexandra, the possibility of making the area a "Special Development Area" or "Area for Priority Development", in which specific land management, taxation and regulatory provisions may apply, should be considered. Regulatory focus should be restricted to matters of public health and safety. Incentives could be made available through tax breaks to businesses and private individuals wishing to invest their own money in regenerating the area. Furthermore, land use and building controls could be relaxed subject to health and safety requirements and flexibility should be given to encouraging mixed-use development whenever possible.

### 3. ORGANISATIONAL ASPECTS

#### 3.1 Coverage

- 3.1.1 This chapter is concerned with a number organisational issues that effect the ARP. First, overall responsibilities for the urban renewal programme, and the need for a strong central management team are discussed at the national level. Political oversight of the ARP is then analysed. Focus then shifts to the organisation structure of the ARP, which is described and analysed in some detail. Changes needed to the structure are outlined with regard to the roles and responsibilities of the precinct managers and the staffing structure of the office of the DUARP. The need for a memorandum of understanding between the spheres of government is discussed and suggestions made for its contents. Finally, comments are made on development partnerships, which in many countries have proved so successful for the implementation of urban renewal projects.

#### 3.2 Current Arrangement

##### General Principles

- 3.2.1 In February 2001, the President announced the creation and upgrading of urban and rural nodes under the *Integrated Sustainable Rural Development Programme* and *Urban Renewal Programme*. The programmes are designed to promote coordinated service delivery across government to improve the lives of the poor and enhance the development of selected communities. The Department of Provincial and Local Government (DPLG) coordinates both programmes, but responsibility for implementation rests with the stakeholders. Implementation uses existing capacity and develops new institutional, planning, management and funding mechanisms that focus national, provincial and local government expenditure towards the identified nodes. Work on Alexandra is the most advanced of that on all urban nodes
- 3.2.2 Basic principles for setting up and implementing the Alexandra Renewal Project (ARP) are intergovernmental collaboration between the national, provincial and local spheres. It is both an inter governmental and inter sector project. National government is responsible for monitoring and coordinating the implementation of urban renewal projects nationwide, through the DPLG, within which a Deputy Director General oversees the programme for all designated urban nodes. Gauteng Provincial government provides the oversight and is concerned with financial management, scheduling, targets and programme formulation, through its Department of Housing. It is spearheaded by the Member of the Executive Committee (MEC) for Housing and is championed by the Provincial Premier. The Province coordinates the activities of all implementing agencies. Implementation<sup>4</sup> is by the Johannesburg City Council, relevant Provincial Departments and other service providers<sup>5</sup>. The City Council is seen as a key-implementing agency. **Figure 1** shows the overall responsibilities for each sphere of government.

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<sup>4</sup> Implementation is by those agencies within whose responsibility a particular programme falls.

<sup>5</sup> These include those programmes implemented by NGOs and CBOs.

**Figure 1: Overall Responsibilities of the Three Spheres of Government**

NATIONAL GOVERNMENT	PROVINCIAL GOVERNMENT	LOCAL GOVERNMENT
<p>Urban renewal policy.</p> <p>Coordination of project implementation at national level</p> <p>Funding.</p> <p>Organisation of urban nodes programme.</p> <p>Monitoring the urban renewal programme overall.</p> <p>Implementation of national projects (police services)</p>	<p>Functional policy for urban nodes.</p> <p>Project planning and programming for the overall project and the provincial components of housing, education, health and welfare social services.</p> <p>Funding (provincial components).</p> <p>Supervision, monitoring and evaluation.</p> <p>Planning, design and implementation of programmes and projects (provincial components).</p>	<p>Planning, design and implementation of municipal projects, including water services, roads and storm-water drainage, provision of electricity, municipal transportation, solid waste removal, traffic, safety and fire and emergency services, disaster management, community facilities sports and recreation, cemeteries.</p> <p>Funding (municipal components).</p> <p>Social facilitation.</p> <p>Coordinating public and private investments.</p> <p>Set legal parameters for development, including planning and building controls, by-laws and policies.</p>

### Political and National Government Oversight of the Programme

- 3.2.3 At national level there is an Urban Nodes (Renewal) Project Office within the DPLG. The office is under the control of a Deputy Director General and is staffed largely by consultants on a contractual basis<sup>6</sup>. This central unit is rather limited in its staffing and duties. Nevertheless, a senior adviser has recently been appointed to the DPLG (in mid May) to assist in operationalising the programme. The World Bank provides funding for this assistance.
- 3.2.4 For a major national programme with Presidential authorisation, a strengthened central policy and programme management unit is needed within DPLG. Its responsibilities should, among others, cover policy formulation, programming for the national urban renewal programme and the provision of technical assistance to the nodal implementation teams. The World Bank, in a recent briefing note to DPLG, has outlined key activities of such a unit. Broadly this covers:
- *Policy framework:* Given the central mandate from the President for urban renewal, there is a need for a clear national policy framework within which the

<sup>6</sup> This comprises some four people: (i) urban renewal programme manager; (ii) Urban policy specialist; (iii) programme support officer; and (iv) administrative officer.

programme will operate. The framework should be determined from cross sectoral and cross sphere consultations and should take into account international developing country experience.

- *Programming:* DPLG, as the national government driver of the urban renewal programme, should develop programme management and monitoring and evaluation capacities. This supports the need for a dedicated programme management unit within DPLG and staffed by national and international experts. The tasks required suggest the unit would need to function for at least seven years – the planned implementation period of the renewal of the first prioritised urban nodes.
- *Assistance to nodal teams:* To assist the local project teams build capacity within the municipalities and provinces to implement the programme, a number of roving teams of international and national experts is needed. Upon request, these experts would assist the nodal teams on matters relating to the detailed planning and implementation of each node.

3.2.5 Clearly, the advice is to create a strong central management team within DPLG and to staff it with local and foreign contractual employees and consultants. This approach is strongly endorsed by the author.

3.2.6 Once the programme is being implemented nationwide, it is recommended that a “nodal sharing programme” of experience and knowledge under the urban renewal programme be introduced. The approach would be for one nodal team to host the others and present its experience on or showcase a particular theme, approach or project pioneered by them. The leading node would host a one-day workshop, where all documentation pertaining to the innovation would be presented. In this way, other nodal teams would be able to share in the experience and could adopt a similar approach in their area. Since the ARP is the most advanced, it is likely that they would pioneer the programme at first<sup>7</sup>. Suggested early topics would be (i) the preparation of business and financial plans; (ii) regularisation and tenure options for informal settlements and backyard shacks upgrading; and (iii) local government funding for the programme.

### **Political Oversight of the ARP**

3.2.7 Political oversight at the local level for ARP is undertaken by the City Council of Johannesburg, through a Section 80 Infrastructure Committee. Originally a committee specifically for Alexandra was proposed, but the Council did not accept this and agreement was for the Infrastructure Committee to assume responsibility. The Infrastructure Committee is chaired by the Member of the Mayoral Committee (MMC) for planning and has four other members comprising:

- MMC for housing.
- MMC for social development.
- MMC for utilities and agencies.
- MMC for finance.

The MMC for health participates as needed.

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<sup>7</sup> To a certain extent the process has already started with the workshop on public financing for the urban nodes held in Johannesburg on May 20<sup>th</sup>, 2002. This has been documented earlier in this report.

- 3.2.8 There is also a Ward Councillor Forum with nine councillors as members through which local political views can be heard. This is the channel through which individual, particularly, Ward councillors can relate to the Regional 7 Director on local issues and concerns. The Alexandra Development Forum, too, has been established to ensure that the ARP is implemented in a manner that is acceptable to and takes account of the needs of the residents and business of Alexandra. In reality, this is the local community development forum designed to engage civil society.
- 3.2.9 At the Provincial level, political oversight is exercised through two Cabinet Sub-Committees, one for Infrastructure, the other for Social Services.

### 3.3 Organisational Structure

- 3.3.1 ARP is being implemented by a partnership of national, provincial and local government. A Project team has been set by the Gauteng Provincial Government within the Department of Housing and is headed by the PM who reports to the Head of Department for Housing and the Member of the Executive Committee for Housing. The City of Johannesburg has appointed a DAURP to oversee project implementation who, with assistance from the Director for Region 7, manages the City's participation. DAURP reports to the City Manager and the Mayoral Infrastructure Section 80 Committee. **Figure 2** shows the current organizational structure for the ARP, which also includes the staffing for the office of the DAURP as recently approved by the City.
- 3.3.2 Overall management of the ARP is undertaken through two teams, which meet on a regular basis. These are:
- Strategic Management Team comprising: (i) the PM, the Communications Manager and Liaison Manager from the Province; (ii) DAURP and Regional 7 Director from Johannesburg City Council; and (iii) the MLA Consultants Project Coordinator and Cluster Leaders for Physical Development, Economic Development and Social Development. Essentially, this brings together the different strands of the ARP.
  - Management meetings of the key members of each cluster grouping comprising physical development, economic development and social development.

#### Focus Areas (Clusters)

- 3.3.3 Project preparation and implementation is undertaken by officials and consultants grouped into three "focus" or "cluster" areas, each of which is divided into specific "functional" areas. These are:
- *Physical development cluster* comprising functional areas of physical planning and the environment, housing and engineering services.
  - *Economic development cluster* covering local economic development, public safety and security and local government capacitation.
  - *Social development cluster* consisting of social services, education, health, sports, recreation, arts and culture and heritage functional areas.



- 3.3.4 Functional convenors have been appointed for each area. These convenors are officials of either the provincial government or from the City of Johannesburg. They are assigned according to which level of government is responsible for providing the specific service. A consultant assists each functional convenor. Functional teams, too, have been set up to formulate and implement functional plans and programmes. They comprise the functional convenor, consultants and other concerned public officials. The staffing arrangement is shown as **Figure 3**.

**Figure 3: Staffing Arrangement for ARP**

<i><b>Focus and Functional Areas</b></i>	<i><b>Cluster Leader / Functional Convenor</b></i>		
	<i><b>Designation</b></i>	<i><b>Full/part time</b></i>	<i><b>Name</b></i>
Physical Development	Consultant	Full time	M Morkel
Physical planning/environment	City	Part time	M Neels
Housing	Province	Part time	W Odendaal
Engineering services	City	Full time	R. Nay
Economic Development	Consultant	Full time	B Fanaroff
Local economic development	Province	Part time	M Altman
Public safety and security	Consultant	Full time	B Fanaroff
Local government capacitation	Consultant	Full time	T Mphenyeke
Social Development	Consultant	Full time	M Stewart
Social services	Province	Part time	J du Preez
Education	Province	Part time	G Martins
Health	City	Part time	Dr Mzizi
Sports, recreation, arts and culture	City	Part time	K Nkwana
Heritage	Province	Part time	B Gcadinja

- 3.3.5 A cluster leader, who coordinates all activities falling under the defined area, heads each “focus area”. The coordinator is a member of a consortium of consultants hired to assist the planning and implementation of ARP. A Project Coordinator, who reports to the PM from the Provincial Government, heads the consultants.

- 3.3.6 Cluster Leaders are responsible for:

- Progress and delivery within each functional area as set out in the functional and project business plans.
- Amending business plans as necessary and submitting them to PM for approval.
- Reviewing annual budgets, cash flows, delivery outputs and outcomes and recommending the same to the PM.
- Conducting regular meetings to develop integrated strategies, coordinate activities and resolve inter-sectoral problems.
- Attending management meetings and reporting on strategic issues and problems.

- 3.3.7 General principles are that the functional coordinators identify the needs and prepare projects and programmes. The concerned line departments of provincial and local government undertake actual implementation. Work is undertaken through functional teams, which comprise representatives of key agencies involved in each functional area. For example, the planning functional team comprises representatives from: (i) the Department of Agriculture, Conservation, Environment and Land and the Department of Planning and Local Government of Gauteng Province; and (ii) the Planning, Transport and Environment Department and City Parks (Pty) Limited of Johannesburg City Council.
- 3.3.8 Consultants do not drive the development programmes. Very often, these initiatives are part of the normal programmes of each department or agency. They are, however, focused to support the objectives of ARP.
- 3.3.9 Functional coordinators are officials seconded from either the Province or the City or appointed by the lead consultant of the project implementation consultants. They function as the chairpersons of the respective functional teams. Key roles of the functional convenors have been set out as follows:
- Managing the functional team, including consultants, and conducting regular meetings.
  - Preparing a business plan to guide the activities of the functional team in consultation with the relevant project manager.
  - Driving the approval and implementation of the business plan.
  - Monitoring and reporting on progress monthly.
  - Certifying claims for payment and monitoring expenditure on projects.
  - Interacting with agencies and other stakeholders within the functional area.
  - Coordinating implementation with other functional convenors through the Strategic Management Team (see 3.3.2 above).

### **Precinct Management**

- 3.3.10 In summary, project preparation and implementation is undertaken by officials and consultants grouped into three “focus areas”, each of which is divided into specific “functional areas”. Overlaying the above, the ARP will be implemented on the basis of spatial areas called precincts. Precinct managers and management teams coordinate the development of each area. These managers are seen by the City to augment their implementation capacity.
- 3.3.11 Three precinct managers and their management teams<sup>8</sup> have been appointed by Department of Housing of the Provincial Government. They are consultant teams, who have been appointed under a competitive bidding process for the precincts of: (i) Pan Africa, Wynberg and Kew; (ii) the Reconstruction Area (RCA); and (iii) Marlboro, Marlboro South and Marlboro Gardens<sup>9</sup>. Personnel within the teams are to be “hands

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<sup>8</sup> Essentially each one is a consortia of consulting firms

<sup>9</sup> These are to follow the terms of reference presented in an Overview Document prepared by the ARP team. These terms of reference were used to tender the precinct management contracts. From initial expressions of interest by more than 40 firms, ten firms were invited to bid for the three priority precincts. However, the bid evaluation, which was undertaken in January 2002, had considerable variations in submitted prices, indicating difficulties in understanding the nature of the work involved. The tender was withdrawn and the ten eligible firms

on” people, who will make a precinct development strategy work. Precinct management teams have expertise in community consultation and communication, survey methods and organization, planning and design, programming, budgeting and financial planning and general project and construction management.

3.3.12 The concept was that Precinct managers, essentially, were to be local area managers who would report to the PM within the Provincial Housing Department, through the Precinct Leader. The Precinct Leader is the Project Coordinator of the consulting consortium hired to assist the PM. Because of the time consuming nature of the work involved in starting the precinct management process, the Project Coordinator is assisted by the Functional Convenor (consultant) for Engineering Services. These two have formed a Precinct Management Team.

3.3.13 Responsibilities of the precinct management teams originally were proposed to follow the four-phase precinct development process, as follows:

- *Phase 1:* Design, data collection and strategy formulation involving: (i) precinct surveys covering land use, service points, beneficiary registration, and socio-economic characteristics of the resident population; (ii) undertaking a consultative process with stakeholders; and (iii) preparing a precinct development strategy.
- *Phase 2:* Programming development, setting performance targets and preparing budgets to assist the implementation of the precinct development strategy. This involves: (i) identifying proposed interventions; (ii) prioritising projects; and (iii) integration of activities within one precinct with those of adjoining areas.
- *Phase 3:* Project implementation, coordination and management. Implementation is to be through the line departments of local and provincial government and, in some cases, by civil society and the communities themselves. Hence, the precinct management team will function in a coordinative management role over the implementing agencies. The team will: (i) ensure that local contractors and service providers participate in the project; (ii) coordinate the schedule of implementation; (iii) resolve issues that are delaying work at the community, contractor, service and government levels; and (iv) report to the PM and DAURP on progress against the programme on a regular, probably monthly basis.
- *Phase 4:* Handover of completed subprojects to the local government and other concerned agencies. The responsibilities of the precinct manager end for a specific project, once it has been turned over.

3.3.14 To facilitate community participation at the precinct level Community Liaison Officers (CLO) will be assigned to each precinct. At present, function wide Community Liaison Officers are in place for housing, local economic development and social services, within the office of the DAURP of the City Government. The CLOs from each consultant’s team will supplement those already in place.

3.3.15 The appointment of the first three precinct managers is seen as a pilot testing ground for the whole process. Discussions with the ARP team and the extensive briefings conducted for the precinct managers during May 2002 have indicated a need to review their proposed tasks. Work programmes were prepared based upon the

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were asked to re-bid after a subsequent briefing on the services required. Bid evaluation was conducted in March 2002, and the later submissions were more responsive to needs. The City Tender Review Committee and the Provincial Tender Board have approved recommendations on contracts’ award and the three teams are now working with the ARP.

approach where precinct managers are seen more as coordinators and facilitators rather than direct implementers. From the actual experience of precinct management to date, final duties and responsibilities for the other precinct managers will be established. Revised terms of reference will be issued and agreed before a decision is made to appoint other precinct managers. Further discussion of the likely roles of these managers is presented later in this chapter.

### **3.4 Organisational Analysis**

- 3.4.1 Upon the request of the PM, the consultant was asked to consider the staffing structure proposed for the office of the DAURP. The original terms of reference for the assignment also indicated the need for an organisational review of the ARP. This is documented in this section, which focuses the review on the functions of the central offices of the ARP within the context of the organisation overall. Strong central management functions are essential to the needs of a project, which is being implemented in partnership with existing agencies and staffed by consultants or contractual employees.
- 3.4.2 The starting point for the assessment is a review of the overall organisational structure for the ARP. Basic principles are discussed and the most appropriate role for the central office determined. This leads to the identification of the mandate and core functions for the Office of DAURP within the context of those of other offices of the ARP, including the Office of the PM within Gauteng Provincial Government.
- 3.4.3 In management terms, the section identifies the organisational structure for the ARP (what kind of structure is it?) and then identifies the functions of the Office of the DAURP within this context (building the structure). The implications of the recommendations made on other parts of the organisation are discussed

#### **What Kind of Structure?**

- 3.4.4 Any organisation is not an end in itself but a means of achieving business performance and results. However, the starting point of an analysis of an organisation should not be its actual structure, but must be that of the business itself. Organisation structure must be designed to enable the achievement of the business objectives for five to ten years in the future, which broadly covers the likely lifespan of the ARP.
- 3.4.5 There are three ways to determine what structure is needed to attain the objectives of a business operation:
  - Activities analysis to identify the key activities needed to attain the objectives.
  - Decision analysis to outline what decisions are needed to obtain the performance necessary to achieve the objectives.
  - Relation analysis to establish with whom a manager in charge of an activity will work with.
- 3.4.6 Business decisions, normally, have four characteristics:
  - Time impact of the decision – how long into the future does it commit the entity and how quickly can it be reversed.

- Impact on other functions, other areas or the business overall. If a decision affects only one function, it can be made at the lowest order, otherwise it will have to be made at a higher level where its impact on others must be considered.
- Number of qualitative factors to be considered, including values, social implications etc. Normally these would be taken at a high level.
- Whether the decision is rare or recurrent. Both need to be made at the level that reflects the time dimension, impact on others and qualitative characteristics of the decision.

Business decisions should always be made at the lowest possible level (this is how far down in the organisation the decision should be made) and should be made so that all activities and objectives affected are considered (how far down can the decision be made).

3.4.7 Relations refers to whom a manager in charge of an activity has to work, what contributions the manager makes to those in charge of other activities and what contribution they have to make to him. The first to be considered in defining a manager's job is the contribution his activity has to make to the larger unit. The upward relationship should always be analysed and established first.

3.4.8 Key activities of ARP relate to:

- Setting the overall vision, formulating objectives, policy formulation for functional areas, overall investment programming and determining the key outcomes (strategic planning).
- Monitoring the attainment of objectives and outcomes.
- Analysing functional areas and formulating proposals for each (survey, analysis, project identification and evaluation).
- Raising resources for implementation (financial planning and management)
- Design and procurement of services to implement identified projects (detailed design, bidding and award)
- Implementation of projects (contract supervision) and disbursements (processing payments).
- Turnover of assets to agencies for management, operations and maintenance (turnover and estate management).
- Administration.

3.4.9 Responsibilities for making key decisions on these activities are shown as **Figure 4**.

**Figure 4: ARP Key Activities and Responsibilities**

<i><b>Key Activity</b></i>	<i><b>Responsible Manager/Decision</b></i>	<i><b>Comments</b></i>
Strategic planning, policy formulation and programming	Programme Manager (PM)	Through overall business plan and separate functional area business plans
Monitoring performance	DAURP and PM	Assisted by cluster leaders and FCs
Survey, analysis, project Identification	Cluster Leaders	Through Functional Coordinators (FCs) and their teams
Raising resources	PM and DAURP	PM for the whole program, DAURP for the City of Johannesburg
Design and procurement	Functional Coordinators (FCs)	Undertaken by implementing agencies and departments of local and provincial government
Implementation	DAURP, FCs and Precinct Managers	Undertaken by implementing agencies and departments of local and provincial government
Turnover/estate management	Precinct Managers	Coordinates estate management and assist the turnover of assets
Administration	DAURP and PM	PM for policy and programming, DAURP for implementation

3.4.10 Relations of the DAURP and the PM involve their reporting to their respective heads of department. In the case of DAURP, this is to the City Manager, vertically, and for coordination to the Region 7 Director, horizontally. For the PM it is to the Head of the Provincial Housing Department. Clear lines of reporting have been demarked.

3.4.11 ARP is a special one off project introduced to upgrade Alexandra township, so that when completed the area should become an integral part of Region 7 within Johannesburg and administered without special status. Staffing positions for ARP are, therefore, co-terminus with the project implementation period. After completion, members of staff are either to be transferred elsewhere in Region 7, to the central offices of the City, to other departments of the Provincial government, or they will be terminated.

3.4.12 Actual implementation of projects will be through existing agencies under which normal responsibility falls. These will be mainly those of the City of Johannesburg, although provincial departments, too, will be involved in the implementation of health and housing projects. Coordinating implementation by others is a clear responsibility of DUARP as part of the central management structure of ARP along with the office of the PM in the province. On this basis the functions of the central management office must take account of the following:

- The office should exist only for the life span of the project implementation period of seven to ten years.

- It should provide the overall management role of the ARP.
- There needs to be a clear distinction between the roles of the office of DAURP and those of the PM in Gauteng Provincial Government, which at present jointly provide the central arrangement function.

### **Building the Structure**

3.4.13 Any management structure should follow three concepts:

- The organisation should be one for business performance, where the structure supports efforts towards achieving objectives.
- There should be the least possible number of management levels.
- The structure should encourage the training and testing of future managers.

3.4.14 To satisfy these requirements, one or both of two principles must be applied:

- Activities should be grouped, where possible on the principle of federal decentralisation, which organises activities into autonomous “product businesses” each with its own “market” and “product” and with its own profit and loss responsibility.
- Where this is not possible, functional decentralisation, which sets up integrated units with maximum responsibility for a major and distinct stage in the business process, should be adopted.

3.4.15 ARP tends to fall into the federal decentralisation model with the “product businesses” being identified by the cluster areas of physical development, social development and economic development. The product of each is a series of designed projects or programmes bidded out for implementation by existing agencies. Supporting good business practise, ARP has a minimum of management levels. Nevertheless, it does not place a heavy emphasis on training and testing of future managers. This largely reflects the fact that many of the senior staff are consultants and that the life of the organisation is limited to that of project implementation period.

3.4.16 Under a federal decentralised organisation, a number of best practises apply. These relate to:

- The organisation must have distinct parts and a strong centre, which sets clear and measurable objectives and exercises control by performance indicators.
- Any federally decentralised unit must be large enough to support the management it needs.
- Each federally decentralised unit must have the potential for growth.
- There should be sufficient scope and challenge to the job of the managers.
- Federal units should exist along with others, each with its own job, own market or product.

3.4.17 It has been shown that ARP operates under the principles of federal decentralisation through its three-pronged cluster area approach. It has a strong centre but as

described earlier, this consists of two separate offices, those of the PM and DUARP. Federal units are able to support themselves through staff, that is a combination of seconded personnel, contractual employees and consultants. Because of the nature of the tasks, each functional unit/team has a limited life span and once all contracts have been awarded and implementation completed, they will cease to operate. By the nature of the work, the cluster leaders and functional coordinators (managers) have clear challenges and an extensive scope of work.

3.4.18 Organisation by function is more effective and less problematic, the more it approaches federal decentralisation. Functional work should always be organised to give the manager the maximum of responsibility and authority and should always turn out as nearly finished or complete a product or service as possible. Decentralisation is always the best way to organise functional activities. This is the basis of the ARP organisation

3.4.19 Decentralisation is held together in the ARP, through a common citizenship represented by a shared vision for the renewal of Alexandra township. Successful management builds common citizenship through:

- *Decisions, which top management reserves for itself:* Central management takes the decisions that affect the project as a whole and its long-term future. At present, these are largely undertaken by the PM.
- *Systematic promotion of managers across departmental and unit lines.* While every encouragement is being given, the limited life span of the organisations discriminates against this.
- *Adherence to common principles, aims and beliefs.* This is practised through the ARP from the top management, through the cluster leaders to functional coordinators.

3.4.20 On the positive side of good management, ARP has avoided growth in the levels of management. The PM encourages issues to be taken by the decision maker, which is often the functional convenor or cluster leader. This avoids the tendency to go through unnecessary channels. The age and sex structure of management is balanced, matching experience and youth.

## Summary

3.4.21 The organisational structure is complex, covers a number of agencies, utilities and corporations at provincial and local government levels in various roles. The seemingly complex structure has the potential for creating conflict among the key actors, but, largely, this has been avoided to date. On the positive side, it has a number of features, which make the complex structure function more smoothly than one would anticipate. These can be summarised as:

- Strong leadership, both at the provincial and city levels through the PM and the DAURP, respectively, and a willingness of senior officials to cooperate fully and work together to achieve the objectives of the ARP.
- Small monitoring and coordinative offices within the City of Johannesburg and the Housing Department for the Provincial Government under the PM and DAURP, respectively, which do not overlap with the functions of the cluster and functional teams.

- The adoption of a private sector project management approach to drive the ARP rather than following a local government bureaucratic model. Objectives and targets have been set and performance monitoring systems are being set up to manage implementation.
- Extensive use of contractual staff and consultants rather than establishing a new bureaucratic structure specifically for the project. This resolves the problem of the lack of relevant and sufficient in-house staff capacity for the ARP within the city and the province. It recognises that after completion, Alexandra will be treated as another area within Johannesburg.
- The use of line departments, existing agencies, communities and service providers as the key implementers. This encourages the building of partnerships that have proved so successful for the implementation of urban renewal projects internationally. The key to success is how government, communities and NGOs will be able to work together.
- Local project implementation through precincts, whose teams are seen to support the capacity of the offices of the DAURP.

3.4.22 While these positive features will ensure cooperation and joint working arrangements and will facilitate stakeholder participation, there are a number of observations, which relate to specific areas of concern. These can be summarised as:

- The functional areas approach is good for coordination but not necessarily suitable for the rapid implementation of projects where intervention is spread across sectors.
- To date, the ARP has been organized along function lines through cluster or focus areas. The introduction of precinct management teams will impose a spatial dimension onto this management structure and is likely to cause initial problems. Particular concern has been expressed over the possible duplication of functions between the precinct management team and the functional teams. This suggests the need for clearly defined briefs for the precinct managers to avoid problems with the cluster and function area leaders.
- There is a degree of uncertainty over the responsibilities for contract implementation among key actors. Nevertheless, clear responsibilities exist for contract supervision by the implementing agency and the precinct manager's role is seen as coordinative and not contract management. Precinct managers will assist in the scheduling of contracts only. However, this needs to be clarified and lines of responsibility made clear to all concerned.
- There is also concern that overall cross-functional coordination has not been resolved sufficiently to warrant a precinct approach. Cluster coordination roles need first to be resolved, then cross cluster coordination and finally, precinct management introduced. But implementation needs to progress and the precinct management teams have been appointed. Concerns need to be addressed and these possibly call for the strengthening of the coordinative process seen through the management team meetings and structures in place.
- Different levels of funding and different implementing agencies mean tendering and procurement procedures differ. This may cause problems, especially when it is intended that preference is to be given in contract awards to companies and workers from Alexandra. Existing rules and regulations often do not permit such

priority. One suggestion was to create a section 21 local government company to implement the ARP and, thus, standardise and set contracting arrangements accordingly. This has been rejected.

- History has shown that precinct approach can lead to financial problems, where the first precincts to be developed secure the majority of the funding available. However, the approval of the business plan for the ARP and the programming of investments according to this document will enable budgets to be allocated to each precinct upfront. Complementing the business plan with a spatially based financial plan will avoid the past problems from being repeated.
- Artificial boundaries between precincts and the need to emphasise focus on impact areas of development within certain precincts. The distinctive nature of each precinct should be recognised and boundaries should be reviewed with an objective of increasing communality of each. There is perhaps an argument to take out main infrastructure network from individual precincts and create this as one special precinct. Because of the nature of work involved, it could be placed under the responsibility of the coordinator for engineering services. To create a focus of activity within each precinct, the unique features of each area should be emphasised and intervention focused accordingly during the early phase of implementation.
- Greater mechanism for community and business participation is needed, which should become possible under the precinct approach. The current approach has largely been “top down” because of the urgency of action and the need to improve local conditions. Effective community participation takes time but is essential for the successful commitment of residents to the ARP. While the Alexandra Development Forum concept needs to be expanded and institutionalised, real community participation must be encouraged more. ARP needs to establish approaches to engage with the people. This is particularly important for the slum upgrading, backyard shacks improvement and social services components that will impact significantly upon the community. It represents a key task for the precinct managers

### **3.5 A Changing Structure**

#### **Precinct Management**

3.5.1 Specific objectives for precinct management can be summarised as follows:

- To coordinate service delivery.
- To provide local, accountable and decentralized management.
- To increase public participation and interaction.
- To assist the design and implementation of projects that satisfies local needs and conditions.
- To assist in the development of local area plans.
- To strengthen relationships between residents, businesses, civil society and the ARP.

- 3.5.2 Precinct managers are essentially local area managers and currently report to the PM through a Precinct Management Team, which comprises the MLA Project Coordinator and the consultant engineering services functional convenor. Reporting through other consultants is perhaps not the best arrangement.
- 3.5.3 Precinct managers are seen to be responsible for coordinating implementation of construction projects within their spatially defined areas. They are the management team that “makes it happen” at the local level and should form the interface between the community and the provincial and local governments. The role of the precinct manager really starts immediately after approval of the Precinct Development Plan and during the period of implementation of construction works<sup>10</sup>. Although their involvement is supposed to end upon completion of construction work and its turnover to the concerned agency for operations and/or maintenance, a continuing involvement is required at least to ensure that the necessary “estate management” activities are undertaken and are sustainable.
- 3.5.4 Core functions for precinct managers, therefore, are to:
- Assist and coordinate the precinct planning process.
  - Coordinate the implementation of the Precinct Development Plan.
  - Undertake social facilitation, including a public awareness programme within the precinct.
  - Form a Precinct Steering Committee as a forum for consulting the community and obtaining their agreement to development proposals.
  - Develop community upgrading plans for residential blocks and coordinate their implementation
  - Coordinate all activities necessary to ensure backyard upgrading, informal settlements upgrading and other improvement programmes within the precinct are completed.
  - Supervise the provision of utilities within upgraded backyards to ensure that agreed health and safety standards are being adhered to.
  - Encourage the upgrading of top structures within backyard and informal settlement upgrading projects.
  - Certify that work has been undertaken on the stand/yard in order to secure release of payments under public financing schemes for house and on-plot improvements.
  - Establish a mechanism for and ensure that appropriate estate management activities are being undertaken in the improved blocks and precincts
- 3.5.5 Accordingly, the activities of the precinct managers are mainly concerned with coordinating implementation at the precinct level. These are consistent with the core functions of the office of DUARP. A natural step would be for the precinct managers to report directly to the DAURP.

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<sup>10</sup> Planning and design is the responsibility of the various functional teams. The work is usually contracted out. Construction supervision will be undertaken by the implementing agency.

## Office of the Director of Alexandra Urban Renewal Project

3.5.6 The organisational analysis presented earlier suggests the following overall functions for the central management of ARP:

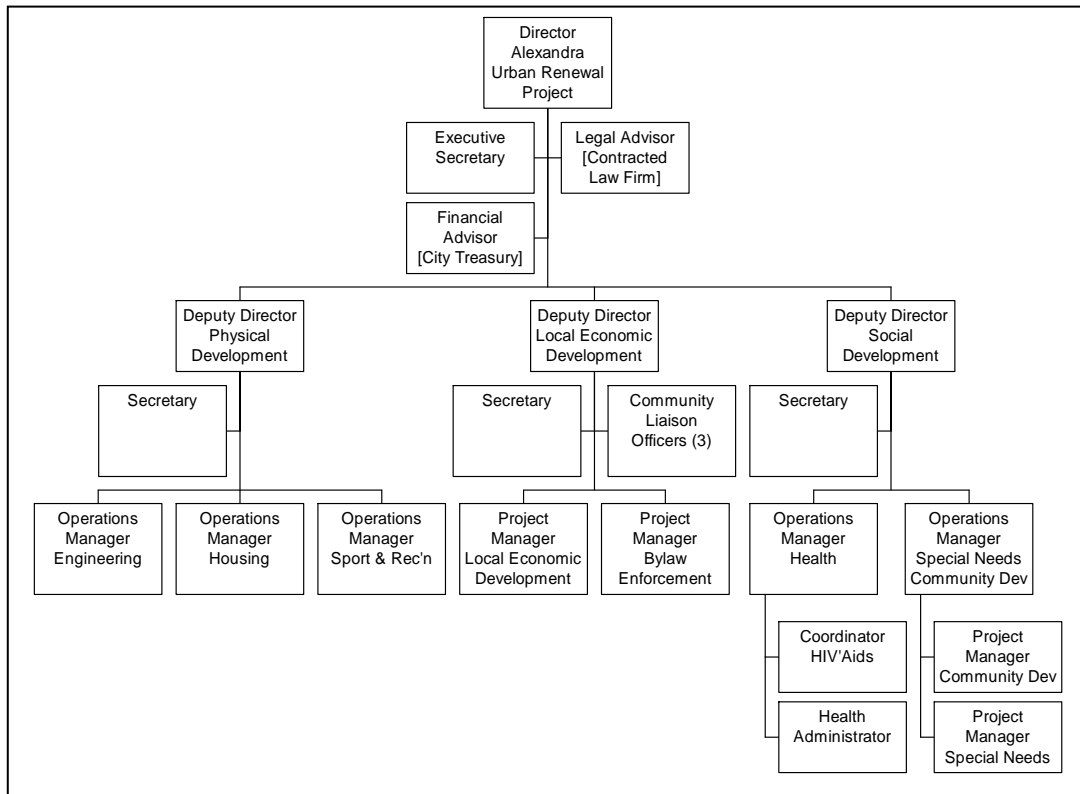
- Strategic planning, currently expressed as an overall business plan and more detailed functional area business plans.
- Policy and programming.
- Raising resources.
- Monitoring performance/outcomes.
- Coordinating project implementation.
- Overall administration.

3.5.7 Central management functions are split between the offices of DAURP and the PM. It is clear that the focus of the DAURP should be more on the implementation aspects than with strategic planning, policy and programming. Following the earlier analysis, a number of factors are clear:

- Office of DAURP is part of the central office structure of the ARP organisation.
- DUARP reports to the City Manager but maintains horizontal lines of communication with the PM and the Region 7 Director.
- The office should coordinate the implementation of the City components of the ARP.
- The office should manage the precinct management process.
- Monitoring performance is a key function to be undertaken.

3.5.8 The current structure and staffing of the DAURP, as approved by the City Council, are shown as **Figure 5**. The organisation is structured with the Director at salary level 2, supported by three deputy directors, all to be appointed on salary level 3, each responsible for a “cluster” area – physical development, economic development and social development. For the physical development and social development cluster areas, services that fall directly under the jurisdiction of the Region 7 City Office, each deputy director will be a City employee. In the case of physical development, the engineering services functional coordinator will assume this position on a concurrent basis. Likewise, the social services regional manager of Region 7 will assume the role of deputy director for social development. Local economic development is a central function of the City and, as such, secondment from the centre is being sought to fill the deputy director position. Each deputy director is to be assisted by managers responsible for functional areas. These managers are to be appointed at salary level 4.

**Figure 5: Alexandra Urban Renewal Project - City of Johannesburg Approved Organisation**



3.5.9 The Deputy Director for Physical Development has three operations managers, for engineering, housing and sport and recreation. The managers will work across all precincts. General functions proposed for the managers are as follows:

- *Engineering operations manager* will drive the Consolidated Municipal Infrastructure Programme (CMIP) funding process and represent the council on all engineering matters.
- *Housing operations manager* will oversee the implementation of the City Council housing projects, including that in RCA precinct, assist with special needs housing to secure the provincial subsidy, be the interface between the city and the registration of beneficiaries for relocation, assist with resolving the illegal occupation of buildings and liase between the Provincial Housing Department and the consultants.
- *Sports and recreation operations manager* will assume project management responsibilities for sports and recreation and will help build such capacity within the City Council.

3.5.10 The Deputy Director for Local Economic Development will interact with local politicians and will be responsible for strategy, budget, and programme packaging within the City. Core functions will be to ensure budget provisions are incorporated at the centre for local economic development components of the ARP. Two project managers, one for local economic development and the other for by-law enforcement

will support the director. There are three community liaison officers within the office. These officers are placed under the deputy director for administrative purposes and it is understood that they will work across the entire department. The major duties of the project managers are as follows:

- *Local economic development project manager* will focus on training development and capacitation and the day-to-day management of the supporting programmes.
- *Bylaw enforcement project manager* will coordinate the enforcement of all bylaws by the concerned departments.

3.5.11 The Deputy Director for Social Development is expected to liaise between Region 7 and the central administration of the City. Particular concern will be to influence the health budget. Two operations managers support the director as follows:

- *Health operations manager* will ensure that health-related programmes are being implemented satisfactorily in ARP. Particular concern will be with immunization and family planning. The manager will be supported by a coordinator for HIV/Aids and a health administrator.
- *Special needs community development operations manager* will be expected to influence social services programmes at the Region 7 and central levels of city administration. The manager is to be supported by a *special needs project manager* who will focus on the implementation of programmes that concern the aged, disabled and mentally retarded ensuring full access to pension, grants and support that is available. Supporting the operations manager, a *community development project manager* will oversee the implementation of programmes for disaster management (fires and flooding mainly), facilitate the establishment of the Metropolitan Police Outstation and ensure adequate coverage of library services within the project. The implementation of a values and citizenship programme and assist and providing the interface between the project and church groups are other key roles for the community development project manager.

3.5.12 Support functions for the office will be through the existing departments of Region 7 for finance, human resources and administration and in legal matters through a law firm contracted by the City government at the central level. No proposals have been made to create specific positions for finance, legal or administration within the office of DAURP.

3.5.13 The organisation and staffing is patterned to provide a key role in coordinating project implementation and assume an active role in the delivery of the City components of ARP. The office will provide the interface between the implementing agencies and the community, and between the project, the political leadership and Region 7 office.

3.5.14 These proposals raise two basic issues:

- Should the Office of DUARP be part of a strong centre, and/or should it focus on implementation aspects?
- What should its relationship with other agencies be, including the Precinct Management Teams and the Office of the PM?

3.5.15 The office of the PM in the Department of Housing, essentially, provides the policy aspects of the ARP and consolidates the programming of resources through the budget and medium term expenditure framework. Functional teams undertake the

planning, design and implementation of projects; these report through the cluster leaders to the PM within the Province. The Office of the PM is seen to have a sunset mechanism and will gradually phase out as project implementation increases with the corresponding demands on management. Central focus will then shift away from strategic planning and policy formulation towards more day-to-day implementation issues.

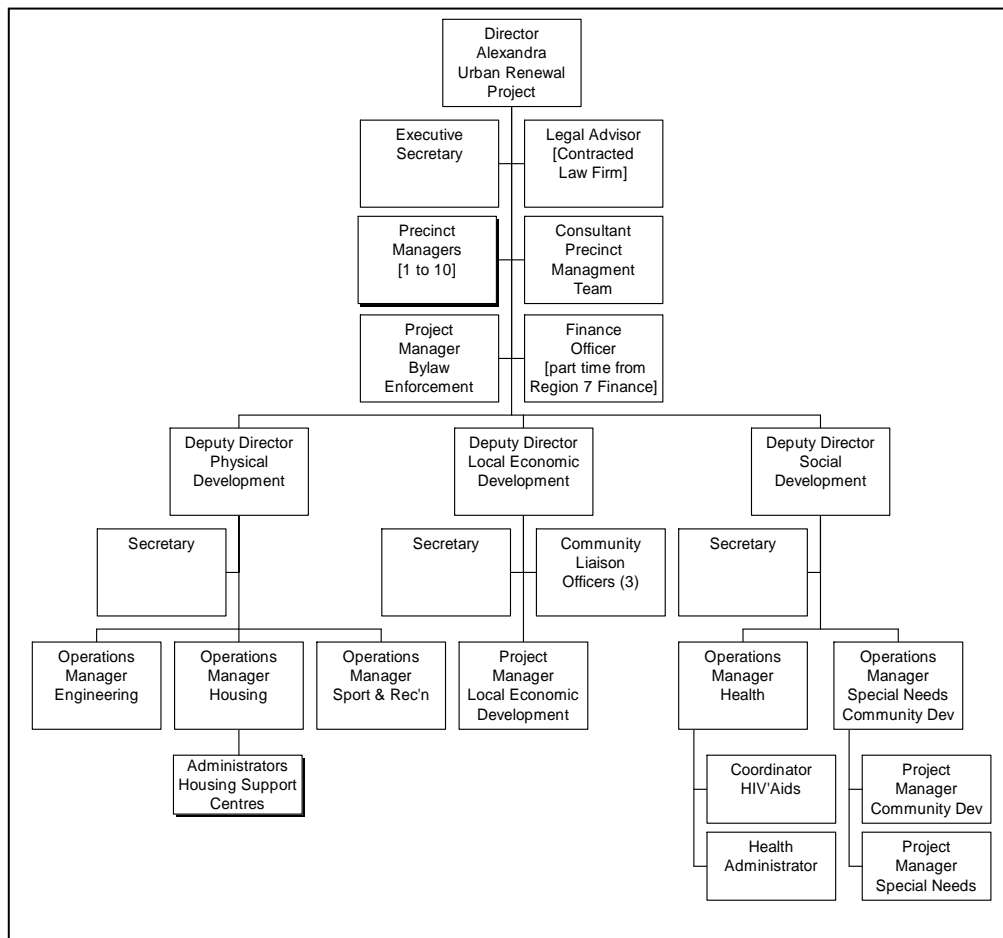
3.5.16 Clearly, major policy and programming and monitoring and evaluation aspects should remain under the office of the PM. Implementation is seen to be best coordinated through the Office of DAURP. Accordingly, the mandate of the office would be to function as a programme office for the implementation of ARP, to assume an active role in the implementation of the components by the City of Johannesburg and its attached agencies, utilities and corporations and to assume control of the precinct management process. Accordingly, the core functions would be:

- Coordinating the implementation of the various components of ARP, including those of other agencies particularly Gauteng Province.
- Liaison with City Councillors and Committees.
- Facilitation of institutional linkages and agreements for ARP within the City of Johannesburg.
- Programming resources for the implementation of City components of ARP, covering funding sources and human resources.
- Monitoring the implementation of City components of ARP.
- Management of the precinct development process, including the provision of housing assistance to beneficiaries.

3.5.17 On the basis of this mandate and core functions, **Figure 6** shows the revised organisation and staffing structure recommended for the Office of DUARP. Basic changes to the current structure involve:

- Precinct Managers reporting to the Director.
- Bylaw enforcement manager reporting directly to the Director, to emphasise the need to work across the entire department and functional areas.
- Attaching the housing support centres to the office (should they become part of the City Government structure – see section 4.5).
- Assigning one member of the finance staff of Region 7 to act as liaison between the ARP and the City. Responsibility would be for strategic financial planning and management of the City components, devising and promoting policies on cost recovery, ironing out difficulties in payments to contractors, and providing general financial advice, where needed. Should the workload demand it, then a separate position of finance officer would be needed within the office of the DAURP.
- Managers should be hired directly by the ARP on a contractual basis, where their contracts end upon completion of the project.

**Figure 6: Alexandra Urban Renewal Project - City of Johannesburg Office Revised Organisation**



3.5.18 These changes have been discussed with the DAURP, and further consideration is to be given to them. It is understood that the precinct managers are to be attached to the office and the bylaw enforcement manager will be placed within the office of the director. Assignment of staff will be co-terminus with the project.

3.5.19 Having established the staffing structure, the DAURP is now drafting the job descriptions for each position. These should be finalised soon and once approved, a detailed budget can be prepared for the office. It is understood that funds can be made available through supplementary resources to cover those positions not filled at the time of the preparation of the overall City budget. For 2003/04 financial year, the budget would relate to the fully staffed office.

### Memorandum of Understanding

3.5.20 Clear roles and responsibilities between the spheres of government have not been adequately defined for the ARP. To rectify this, priority is being given towards preparing a Memorandum of Understanding (MOU) between the spheres of government. The City of Johannesburg's retained legal firm has been requested to prepare the first draft. This MOU is required because:

- The complex arrangements between spheres of government, although working satisfactorily at present, may become problematic should changes in senior personnel occur.
- There is uncertainty regarding the availability and sourcing of financing for the programme.
- There are a number of overlapping roles between offices and spheres of government, particularly relating to strategic planning, implementation and financing.

3.5.21 The MOU is to be between the National Government, Gauteng Province and the City of Johannesburg. It should be an enabling rather than a prescriptive document and should be short and succinct. The MOU would set out in relation to ARP:

- The roles of Gauteng Province, City of Johannesburg and National Government and their ministries, line departments, utilities and attached agencies.
- The financing arrangements for the ARP, including access to the funds of existing programmes, new money and the expected flow of funds.
- Clear roles and responsibilities of PM, the DAURP, and the City of Johannesburg Regional Directors for Zones 7 and 3.

3.5.22 Discussions have taken place between the author and representatives of the legal firm<sup>11</sup>, where a thorough briefing of the background and possible contents of the MOU were discussed. A first draft has been prepared and it is understood that it will be forwarded to this consultant for comment.

## **3.6 Development Partnerships**

3.6.1 Experience from the overseas suggests that successful initiatives in urban regeneration have occurred when:

- Effective coalitions of all concerned stakeholders within a local area have been encouraged through the development of structures that encourage the formation of long-term partnerships.
- Local authorities are a significant part in any partnership.
- Local communities (residents and voluntary groups) are actively engaged in the partnership and involved in the project.
- The focus of programmes for urban regeneration areas has been improved, where strategic objectives guide investment priorities.
- There is an urban budget that reflects local conditions.
- Horizontal cooperation between local authorities, government departments, local agencies, research institutes, professional bodies and local interest groups is well established.

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<sup>11</sup> Meeting between Mr. Brockman and Mr. D. Wimble and Mr. G. Collins from Moodie and Robertson, Attorneys, Notaries and Conveyancers in Johannesburg on 22 May 2002.

- Vertical cooperation between national, provincial and local government is enhanced.
- Private sector involvement is maximised.

3.6.2 Following these success factors, lessons for the ARP are that: (i) clear roles and responsibilities between the various levels and agencies of government need to be spelled out in more detail; and (ii) that consideration should be given towards establishing active development partnerships with the private sector, civil society and the community. The first point has already been dealt with. The second is discussed below.

3.6.3 Development partnerships could be formed where a significant input is expected from the private sector, civil society or the communities themselves. Partnership agreements for these could be entered into, which could vary from simple agreements to collaborate to formal joint venture arrangements where the need arises. For example, in the developed world, the number of urban regeneration partnerships has expended significantly. They have been established on complex organizational and political environments, where there are many potential partners within numerous and diverse functions. Although there are no clear models, in general, partnerships can be:

- Facilitating - focusing on deep-rooted problems through policy initiatives. Here, the partners often have differing perspectives and wide ranging objectives. Stakeholders, generally, will be powerful.
- Coordinating – drawing together organizations to oversee initiatives implemented by the same partners or other agencies. These are often led or managed by one partner and address common theme such as environmental improvement or urban regeneration.
- Implementing – responsible for the delivery of agreed projects that often involve securing funding and resources. These often are short-term institutional arrangements set up to achieve a particular objective.
- A combination of the above.

3.6.4 The types of partnership are many and varied, although they do fall into a number of groups. Some examples of different partnerships in the UK are shown as **Figure 7** over the page.

**Figure 7: Types of Partnerships**

<b>Type</b>	<b>Coverage</b>	<b>Partners/Features</b>	<b>Activities</b>
Development partnership or joint venture	Single site or specific area (often town center) in need of improvement	Private developer, housing association and local government	Commercial or non-profit development producing mutual benefits
Development trust	Designated area for regeneration, such as a neighborhood or housing estate	Community-based but independent of public bodies although there would be public sector representatives	Community-based regeneration. Creates and disburses community benefits. Non-profit making thus surpluses are recycled into the trust.
Informal arrangement	District or local authority wide	Private sector led. Often sponsored by Chamber of Commerce or a development agency	Promotion of growth and investment. Tackles problems, issues and strategies that are of mutual interest to all partners
Agency	Urban or sub-region	Scope depends on the sponsoring agency. Delivery through a team from the partners or a development company independent of the partners	Multiple tasks to be completed within a given time frame
Strategic	Sub-region. Metro-wide	All sectors	Broad strategy for growth and development. Acts as catalyst and guide for development. Implementation through third parties. Can act as umbrella organization guiding others.

- 3.6.5 Of these, the “informal arrangement” is the one most applicable to the ARP. Partnerships for local economic regeneration are most likely and may emerge informally or could be facilitated by the ARP.

## **4. HOUSING, UPGRADING AND BACKYARD SHACKS**

### **4.1 Upgrading Living Conditions**

- 4.1.1 The improvement of living conditions is a key objective of the ARP. Upgrading of stands with backyard shacks and informal settlements are major initiatives, which will largely determine the success of the project. This chapter looks at some issues relating to financing and implementation of these shelter initiatives.

### **4.2 Approach to Upgrading**

- 4.2.1 Successful slum upgrading initiatives world-wide have resulted from:

- The adoption of a community-based approach, where communities buy into the project at the earliest possible time and have considerable input into what the outcomes should be.
- Adherence to market principles in pricing so that subsidies are minimised. Where government decides that subsidies should be included, these are transparent and readily quantifiable. Particularly where land transactions are involved, pricing should be as near to market rates as possible.
- Infrastructure upgrading proposals should be designed on the basis of the affordable limits of the resident population. Design standards should be reduced in order to ensure such conditions prevail.
- Adoption of an incremental approach towards improving housing structures. Squatting is the market response to the lack of affordable housing available. People occupy land and build structures that match what they can afford. Expansion of the structure occurs once security of tenure has been acquired and equally important, when money is available to finance incremental improvements.
- Recognition that renters form a significant proportion of the resident population and that they are already paying market rates for such accommodation. The need to provide these tenants with alternative accommodation, such as public rental housing, is neither necessary nor desirable since the rents they pay contribute significant income to those families who are renting out units or rooms.

- 4.2.2 The application of these principles to the backyard shacks and informal settlements upgrading programmes of ARP are discussed below.

### **4.3 ARP Backyard Shack Upgrading**

#### **Interventions**

- 4.3.1 The upgrading of backyard shacks should be designed to reflect the application of the above principles. Experience shows that the most beneficial approach is one under which there is a phased introduction of interventions. Typically, these would be implemented as several phases, each with a different focus.
- 4.3.2 First, tenure resolution through community decision-making, market-based compensation and payments. Clear title to plots is needed and proposals are now for individual freehold title or through the creation of a close company for communal ownership. Tenant-owner agreements are proposed and where appropriate,

compensation paid to those who wish to leave or have invested in properties, which fall into other ownership. Agreements and compensation should all reflect market realities and valuations. Although the expenditure implications could be significant, when compared to the resettlement option they may well prove more cost effective and easier to implement.

4.3.3 Second is the investment phase, which covers both infrastructure upgrading and incremental housing (top structure) improvements. A proposal concerning the use of the national housing subsidy funds for the programme is needed. This would cover the amount of subsidy that should be made available – whether or not to grant the full amount to all in a close company or just to the prime plot owner in case of individual title. Once the subsidy amounts have been agreed upon, this should determine the maximum cost level for the infrastructure and on stand improvements. Infrastructure standards should be designed to ensure that there is a balance in the amount of entitlement available to enable on stand improvements to satisfy agreed minimum standards.

4.3.4 Investments for on-stand improvements are likely to be in two phases:

- *Investment needed to satisfy minimum standards.* These should not be onerous but must relate primarily to basic health and safety concerns. On stand improvements, as such, should be mandatory on the owner(s) and their attainment could be tied into the titling process. The adopted standards must be realistic and attainable and ARP must have the power to impose sanctions should the improvements not be constructed within a specified time period. As shown above, the balance of subsidy entitlements could be used to fund the improvements. These entitlements may be pooled, in the case of a close company arrangement. Although there may be some political difficulties, the actual release of the title documents should be withheld until the improvements have been completed by the plot owner(s).
- *On-going investment for superstructure improvements.* This is largely seen as private demand led investment, funded by the plot and/or structure owners. Funding would be through personal savings or could be borrowed from a financial institution. International experience shows that the most effective programmes for such credit are through community-based micro finance institutions. The micro finance institution would be an intermediary between the borrower and a formal lending institution. It is suggested that potential wholesale (normally formal sector financial institutions) and retail lenders (micro finance institutions) be identified and discussions held to seek their participation in the programme.

4.3.5 A detailed process for the upgrading has been prepared and this clearly has outputs at each stage. The City will need to formally approve specific plans. It is clear that this approval should be linked to the budgeting process, so that funds can be allocated accordingly.

### **Estate Management**

4.3.6 Upgrading is not just a one off process. In view of the considerable investment that is to take place within the residential blocks, it is essential that the built assets are appropriately maintained and that there is a continuing improvement of the environment as top structures are upgraded. Setting up appropriate arrangements for estate management is essential. This can only be accomplished, however, with the community “buying in” to the project and fully supporting its aims and objectives, which they should have helped to formulate.

- 4.3.7 Estate management activities must be seen as part of a continuous process through the improvement phase and beyond. During the entire process, all members of the communities should be actively involved. Nevertheless, the focus of community involvement will change during the project cycle. For example, at first, this would involve the prevention of the influx of illegal occupants once relocation has been undertaken. During development, it would ensure that community preferences are taken into account. After completion and disengagement, residents should be encouraged to help with rule enforcement.
- 4.3.8 The upgrading of the backyard shack areas will take considerable time and the need for formal approval of building plans by the City of Johannesburg will be immense if normal rules and approval processes apply. There is a need to simplify the procedures for the approval of on-stand improvements and this could be achieved through the creation of a local forum, made up of community representatives on a block-by-block basis to endorse applications for improvements. Applications could then be batched and submitted to the City for formal approval en masse. Alternatively, a sub committee could be formed within Johannesburg City Council, which would have statutory powers to approve on stand (erven) plans within the context of approved precinct development plans and agreed standards.

#### **4.4 ARP Informal Settlements Upgrading**

- 4.4.1 Informal settlements upgrading is in its early stages of development, where the strategy and approach is just being formulated. The consultant attended a number of brainstorming sessions on the programme. One key financial issue that emerged was the need to link the formal planning process into the budgeting system to ensure that appropriate funds would be available when needed.
- 4.4.2 There are three clear stages in the process: (i) legalisation of tenure; (ii) introduction of basic services; and (iii) consolidation of on-plot structures. The process involves:
- Registration of beneficiaries and tagging of structures.
  - Preparation of a framework plan and engineering design works.
  - Introduction of services to the settlement – main infrastructure networks for water supply, sewerage, drainage, access, and electricity.
  - Block (enclave) upgrading involving lot survey and monumenting (pegging), connections to infrastructure and services, and top structure improvements.
- 4.4.3 Each has its demands for investment and budget allocations. First is to resolve the issue on funding for the programme. Will this be a direct project related fund or would use be made of the housing subsidy? On the grounds of equity, it is preferable to use the subsidy that is available to all those who qualify. In any case, if they were to be relocated, the full amount would be made available. Hence, for design purposes, the full subsidy per household should be made available as an entitlement to the occupants. This, then, would set the limits for the cost of improvements to be made. It should be that, say, some 40 to 60 percent of this amount would be available to cover the cost of land and land improvements and the balance available for top structure upgrading. To foster community ownership from the start, beneficiaries should be encouraged to save and raise resources of their own to supplement the subsidy funds that would be available. Whether or not this should be conditional or voluntary, needs to be decided. Making equity contributions from beneficiaries mandatory would encourage savings, which would lead to the development of a

payment culture for services and encourage greater community ownership. Some form of beneficiary contributions, however small and whether or not in cash or kind is recommended. But the practicality of this proposal will rest with the effectiveness of the community participation process, seen as a key task for the precinct managers.

- 4.4.4 Equally important would be the creation of a forum for community participation and to assist in the actual implementation of the improvements. Block level participation at grass routes is needed. Each block could then be represented on a precinct steering committee. But there should always be a clear distinction between the implementation process of the upgrading under the ARP and the formal plan and building approval and regulatory functions of the City.

## **4.5 Housing Support Services (Para Professionals)**

- 4.5.1 The upgrading of housing stock and the in-situ improvement of informal housing are key components of the ARP. Most of the top structure improvements will be driven and undertaken by the homeowners themselves. Many families, however, will need assistance since they are unlikely to have experience of construction techniques, methods and materials and will need help to process applications through the formal approval channels.
- 4.5.2 Assistance is to be provided by personnel (paraprofessionals) located within the housing support centres that will be introduced under the ARP. Two centres are planned initially, each offering a range of beneficiary services. Key activities of the paraprofessionals would include:
- Facilitating agreements with residents.
  - Drawing yard or house plans and expediting plan approvals.
  - Providing technical advice on building construction and improvement.
  - Coordinating access to a range of building materials.
  - Facilitating access to sources of finance, whether through subsidies or loans.
- 4.5.3 The precise nature and organisation form of the centre has yet to be determined and a decision is needed whether or not it will be a private or a public corporate entity or simply a government service centre.
- 4.5.4 Should ARP plan the centres as local service entities, then these functions fall under the jurisdiction of the City Government. The centres could be located within the Region 7 office or directly under the DAURP. Since the centres are project related, their supervision should be exercised by the DUARP, hence, they should be attached to the office of the DAURP. Other centres could be established when needed.

## **4.6 Public Rental Housing**

- 4.6.1 Concern has been expressed to the consultant over the financial viability of the housing association model adopted to provide and manage “public” rental housing. Revenues from rents collected from tenants are said to be lower than the financial requirements needed to service loans incurred in the development of rented property and to provide sufficient resources and reserves for routine and periodic maintenance and the necessary operating costs. Significant mismatches are likely in projected cash flows, which are likely to lead to the financial failure of the adopted model. Anticipating such a problem requires that solutions be found early.

## NATIONAL GOVERNMENT GRANTS TO PROVINCES AND MUNICIPALITIES

Vote	Allocation	Purpose/Funding for	Applicable to Urban Nodes
<b>TRANSFERS TO PROVINCES</b>			
<b><i>Nationally Assigned Function Grant to Provinces</i></b>			
Health (16)	National Tertiary Services Grant	Providing tertiary health services	Yes
	Health Professions Training and Development Grant	Supporting training and development of health professionals	Yes
<b><i>General Conditional Grants to Provinces</i></b>			
National Treasury (8)	Provincial Infrastructure Grant	Providing provincial infrastructure – roads, school buildings, health facilities and rural development	Yes
	Provincial Infrastructure Grant – Flood Rehabilitation	Reconstruction of flood damaged infrastructure	No
<b><i>Conditional Grants to Provinces</i></b>			
Agriculture (25)	Poverty Relief and Infrastructure Development Grant	Address degradation problems of natural resources and improve socio-economic status of rural communities	No
Education (15)	Financial Management and Quality Enhancement Grant	Support financial management and quality enhancing initiatives in school education	Yes
	Early Childhood Development Grant	Provide quality education to poor children eligible for the reception year	Yes
	HIV/Aids (Lifeskills Education) Grant	Promote HIV/Aids education in primary and secondary schools	Yes
Health (16)	Hospital Revitalisation Grant	Transform and modernize hospitals in line with national planning framework	Yes
	Pretoria Academic Hospital Grant	Construction and development of Pretoria Academic Hospital	No
	HIV/Aids (Counseling and Testing) Grant	Expand access to voluntary HIV counseling and testing	Yes
	Integrated Nutrition Programme Grant	Feed primary school children, facilitate nutrition education and health promotion	Yes
	Hospital Management and Quality Improvement Grant	Improving management in hospitals and support quality of care interventions	Yes

<b>Vote</b>	<b>Allocation</b>	<b>Purpose/Funding for</b>	<b>Applicable to Urban Nodes</b>
Housing (17)	Housing Subsidy Grant	Subsidies under the national housing programme	Yes
	Human Resettlement and Redevelopment Pilot Programme Grant	Projects aimed at improving the quality of the environment in urban communities	Yes
Provincial and Local Government (5)	Local Government Support Grant	Assist municipalities experiences severe financial problems to restructure their financial positions and organisations	No
	Provincial Consolidated Municipal Infrastructure Programme (CMIP) Grant	Support to manage the CMIP effectively and to build the capacity of municipalities to ensure the sustainability of CMIP projects	Yes
Social Development (18)	Financial Management improvement of Social Security System Grant	Improve financial management, administration and functioning of the social security system	No
	HIV/Aids (Home Based Care) Grant	Advance the development of home-based care programmes in communities	Yes
<b><i>Grants in Kind/Direct Allocations to Provinces (Indirect Transfers)</i></b>			
Arts, Culture, Science & Technology (14)	Poverty Alleviation Grant	Poverty relief projects in areas of cultural industries, cultural tourism and heritage development	Yes
Education (15)	Schools as Centers for Community Development Grant	Develop and pilot a cost effective approach to the design, construction and management of school facilities which will also meet development needs of rural communities	No
	National Ikhwelo Projects Grants	Provide access to skills development in general education and training for adult learners to enhance their social and economic capacity	Yes
Social Development (18)	Poverty Relief Grant	Increase self-reliance and improve social cohesion of specific demographic groups, including women, youth, children, disables and aged vulnerable to poverty	Yes

Vote	Allocation	Purpose/Funding for	Applicable to Urban Nodes
<b>TRANSFERS TO MUNICIPALITIES</b>			
<b><i>Infrastructure Transfers to Local Government (Conditional Grants)</i></b>			
Provincial and Local Government (5)	Consolidated Municipal Infrastructure Programme (CMIP)	Provide internal bulk, connector, internal infrastructure and community services and facilities to low income households	Yes
	Local Economic Development Fund Grant	Support planning and implementation of job creation and poverty relief alleviation projects	Yes
	Integrated Sustainable Rural Development Strategy Grant	Support Integrated Sustainable Rural Development Strategy (ISRDS) nodal municipalities to establish institutional systems and nodal delivery teams for planning, project initiation and implementation of ISRDS	No
Public Works (6)	Community Based Public Works Programme Grant	Creation of community assets in disadvantaged rural communities and to manage the facilities in cooperation with the local municipality	No
Mineral and Energy Affairs (30)	National Electrification Programme Grant	Implement the National Electrification Programme through providing capital subsidies to licensed municipalities to address the electrification backlog in permanently occupied residential dwellings	Yes
Transport (32)	Urban Transport Fund Grant	Promote planning of inter modal land transport infrastructure and operations, facilitation of integrated land use and land transport planning, development of guidelines and initiate demonstration projects	Yes
Sports and Recreation (19)	Building for Sports and Recreation Programme Grant	Promotion of sport and recreation within disadvantaged communities by development of new and upgrading existing sports facilities and empowerment of communities to manage facilities in cooperation with the local municipality	Yes
Water Affairs & Forestry (33)	Implementation of Water Services Projects (Capital) Grant	Bulk, connector and internal infrastructure for water services at a basic level of service and implement such projects where municipalities lack the required capacity to do so.	Yes
<b><i>Recurrent Transfers to Local Government (Conditional Grants)</i></b>			
National Treasury (8)	Financial Management Grant	Promote and support reforms to municipal budgeting and financial management practices and implementation of the Municipal Financial Management Act	No
	Local Government Restructuring Grant	Modernise large budget municipalities and make them more effective and efficient service delivery authorities	No

<b>Vote</b>	<b>Allocation</b>	<b>Purpose/Funding for</b>	<b>Applicable to Urban Nodes</b>
Provincial and Local Government (5)	Municipal Systems Improvement Grant	Support municipalities in implementing new systems as provided in the Municipal Systems Act, 2000 and LDO/Spatial planning activities	No
	Local Government Transitional Grant	Assist municipalities with once off costs of amalgamating and establishing new structures following the demarcation process	No
<b><i>Recurrent transfers to Local Government (Grants in Kind/Indirect Transfers)</i></b>			
Public Works (6)	Community Based Public Works Programme Grant	Creation of community assets in disadvantaged rural communities and to manage the facilities in cooperation with the local municipality	No
National Treasury (8)	Financial Management Grant	Promote and support reforms to municipal financial management practices and the implementation of the Municipal Financial Management Act	No
Water Affairs & Forestry (33)	Water Services Operating Subsidy Grant	Augment water services trading account of the department to provide funding for operation and maintenance of water schemes that are owned and/or operated by the department or by other agencies on behalf of the department	No
	Implementation of Water Services Projects Grant	Bulk, connector and internal infrastructure for water services at a basic level of service and implement such projects where municipalities lack the required capacity to do so.	Yes

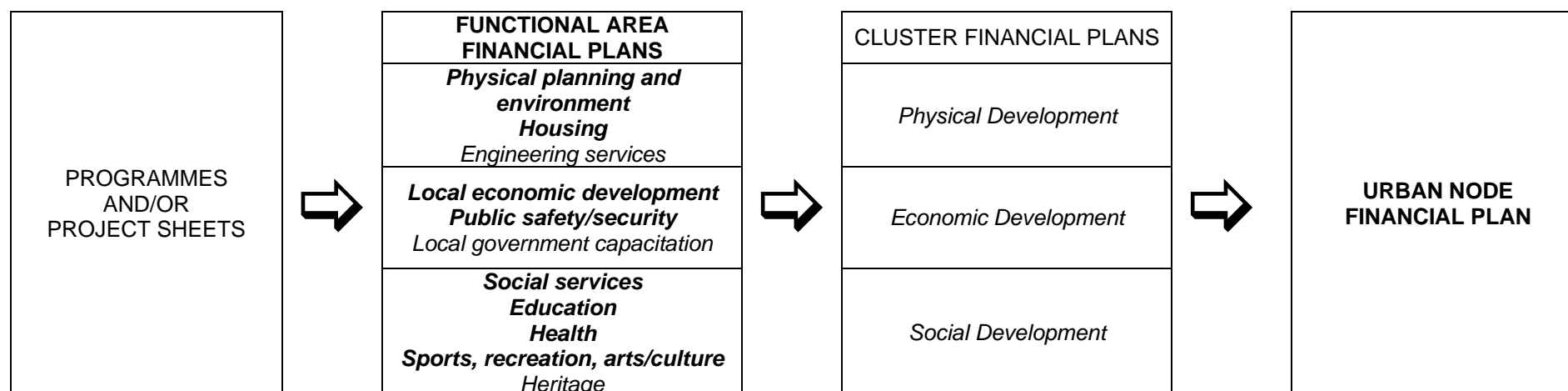
## SUMMARY FORMAT FOR THE PRESENTATION OF THE FINANCIAL PLAN FOR THE RENEWAL OF URBAN NODES

[illegible]

SOURCE OF FUNDS <b>CAPITAL INVESTMENT:</b>	Financial Year (Rand Millions)							
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	TOTAL
Conditional Grants to Provincial Governments								
[Name of Grant]								
Sub-total								
Conditional Grants to Municipalities								
[Name of Grant]								
Sub-total								
National Government Funds								
[Name of Agency]								
Sub-total								
Provincial Governments – Own Funds								
[Source]								
Sub-total								
Municipal Revenues / Internal Cash Generation								
[Name of Agency / Utility / Corporation / Other]								
Sub-total								
Borrowing								
[Loan/Debt Instrument and Lending Agency]								
Sub-total								
Total Capital Funds								

SOURCE OF FUNDS	Financial Year (Rand Millions)							
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	TOTAL
<b>INCREMENTAL OPERATIONS &amp; MAINTENANCE:</b>								
Equitable Share to Provincial Government								
Equitable Share to Local Government								
User charges, fees, taxes, etc								
[Name of Agency / Utility / Corporation / Other]								
Sub-total								
Total Incremental Operations & Maintenance								
<b>TOTAL SOURCES</b>								

A separate sheet should be completed for each programme and major project proposed for every functional area. Each programme/project sheet should be consolidated by functional area and then each functional area sheet consolidated by cluster. Finally each of the three cluster sheets should be consolidated to form the urban node financial plan. The illustration below refers to Alexandra Renewal Project, but the principles should be similar for other urban nodes.



**ANNEX 1**  
**LIST OF PERSONS MET**

**ANNEX 2**  
**URBAN NODE FINANCING WORKSHOP**  
**OBJECTIVES AND PROGRAMME**

**ANNEX 3**  
**WORKSHOP PAPER**  
**PUBLIC FINANCING FOR THE RENEWAL**  
**OF URBAN NODES**

## **ANNEX 4**

### **WORKSHOP PRESENTATION**

**ANNEX 5**  
**PUBLIC FINANCING FOR THE RENEWAL**  
**OF URBAN NODES:**  
**A CONCEPT PAPER**

**ANNEX 6**  
**PROGRAMME FINANCIAL**  
**PLANNING PROCESS**

## LIST OF KEY PERSONS MET

<b><i>Name</i></b>	<b><i>Designation/Agency</i></b>
Carien Engelbrecht	Program Manager, Alexandra Renewal Project (ARP)
Anthony Blandford	Director of the Alexandra Presidential Urban Renewal Project
Blake Mosley-Lefatola	Regional Director, Region 7, City of Johannesburg
Roland Hunter	Executive Director, Finance, City of Johannesburg
Themba Maluleke	ARP Consultant Project Coordinator, Maluleke, Luthuli and Associates
Mike Morkel	Cluster Leader, Physical Development, ARP
Bernie Faranoff	Cluster Leader, Economic Development, ARP
Marion Stewart	Cluster Leader, Social Development, ARP
J Mabosha Shirley Mohulatsi	Councillor, Ward 91, Innercity Portfolio Committee.
Monty Narsoo	Adviser, Department of Provincial and Local Government.
Nomfundo Tshabala	Chief Director, Budget Management, Finance and Economic Affairs, Gauteng Provincial Government
Elize Stroebe	Director, Investment Management, Department of Housing, Gauteng Provincial Government
Matthew Nell	Development Consultants, Strategic Adviser, Department of Housing, Gauteng Provincial Government
Joel Kolker	Housing and Urban Environment Division, USAID
David DeGroot	World Bank
Rebecca Black	USAID
Barbara DeGroot	Mega-Tech, Inc.
Steve Horn	Mega-Tech, Inc,
Dr Miriam Altman	Executive Director, Human Sciences Research Council
Rodney Nay	Convenor Engineering Services, Region 7, City of Johannesburg
Hilton Sparks	Director, Phumelela Africa
Frans J du Plessis	Development Services and Project Management Division, Africon

Brian Marrian	Business Development Leader, CSIR
Yondela Silimela	Project Leader Training, CSIR
T.V. Pillay	Local Government Department, National Treasury, Government of Republic of South Africa
David Krywanio	Advisor, Local Government Budgets, National Treasury, Republic of South Africa
Graham Collins	Associate, Moodie and Robertson
Douglas Wimble	Moodie and Robertson

**Workshop  
Financing the Urban Nodes  
May 20<sup>th</sup>, 2002**

**1. Objective and Output of Workshop**

**1.1 Objective**

The objective of the workshop is to formulate and agree an approach towards the funding of the urban nodes programme focusing on the sources and methods of allocating intergovernmental transfers.

**1.2 Output**

A draft paper that summarises the findings of the workshop and outlines a concept for the urban nodes will be prepared after the completion of the workshop. The paper will be circulated amongst the participants and comments made will be incorporated into the final version. The final version of the paper will be submitted to National Treasury for discussion and agreement.

**2. Workshop Mechanics**

**2.1 Opening Remarks and Presentation**

Opening remarks will be made by the moderator, who will outline the objectives, expected output and mechanics of the workshop to the participants.

A paper will be presented which identifies the issues and problems of the current arrangements and suggests a way forward under which funds could be made available for investment.

After the presentation of the paper, an open forum will be held under which questions on the paper and aspects seeking clarification can be raised.

**2.2 Presentations by Representatives of Provinces and Urban Nodes**

Half an hour is allocated to each Province under which a presentation will be made on the financing plans, issues and problems over raising funds and suggestions for improvement. The presentation should be for about 15 minutes and cover the following:

- Overview of the financing plan for each urban node.
- Problems and issues over financing.
- Recommendations for improvement.

After the presentation, 10 to 15 minutes is allocated for comments and questions from the floor.

**2.3 Synthesis and Closing Remarks**

The workshop will end with a synthesis of the proceedings, including a summary of the main findings and recommendations.

**Workshop**  
**Financing the Urban Nodes**  
**May 20<sup>th</sup>, 2002**

**Programme**

8.45 to 9.00	Registration and coffee	Presenter
9.00 to 9.15:	<i>Introductory remarks and objectives of the workshop</i>	<i>Monty Narsoo, moderator</i>
9.15 to 9.45:	Presentation of paper "Public Financing for the Renewal of Urban Nodes"	Royston A. C. Brockman
9.45 to 10.00:	Questions and comments, open forum	Monty Narsoo, moderator
10.00 to 10.15:	Break	
10.15 to 12.45:	<i>Provincial/urban node presentations:</i>	<i>Monty Narsoo/Royston Brockman, moderators</i>
10.15 to 10.45:	Eastern Cape (Mdantsane & Motherwell)	
10.45 to 11.15:	Gauteng (Alexandra)	
11.15 to 11.45:	KwaZulu Natal (Inanda & Kwamashu)	
11.45 to 12.15:	Northern Cape (Galeshewe)	
12.15 to 12.45:	Western Cape (Khayalitsha & Mitchell's Plain)	
12.45 to 1.00:	<i>Synthesis and closing remarks</i>	<i>Royston A. C. Brockman</i>

Republic of South Africa  
Gauteng Provincial Government Department of Housing  
City of Johannesburg  
World Bank Africa Technical Families  
United States Agency for International Development

**Technical Assistance to the Alexandra Renewal Project,  
Johannesburg, South Africa  
Paper presented at Urban Node Financing Workshop**

# **PUBLIC FINANCING FOR THE RENEWAL OF URBAN NODES**

Royston A. C. Brockman  
Director



International

May 20<sup>th</sup>, 2002

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# 1. INTRODUCTION

## 1.1 Purpose of Paper

- 1.1.1 This paper presents an approach towards allocating funds for the development of the renewal programmes for the urban nodes. It is a concept paper written for discussion purposes that focuses on intergovernmental transfers to provincial and local governments. Recommendations made however do not negate the need for the urban nodes to attract other funds including those from the private sector, for utility agencies to borrow for capital investment projects against the expected revenues, or for municipal governments to use their own tax and other revenues for improvement.

## 1.2 Background

- 1.2.1 In February 2001, the President announced the creation and upgrading of urban and rural nodes under the Integrated Sustainable Rural Development Programme and Urban Renewal Programme. Nevertheless, the national government did not commit a dedicated source of funding for the program. Instead, all departments were expected to prioritise and focus their investments and expenditures towards these areas. In all 13 rural nodes and 8 urban nodes were designated. Urban nodes have been identified in five provinces<sup>1</sup>. Their development is to be undertaken with funds from national, provincial and municipal sources, as indicated in Box 1 below.

### Box 1:

#### The Integrated Sustainable Rural Development and Urban Renewal Programmes

The *Integrated Sustainable Rural Development Programme* and the *Urban Renewal Programme* promote coordinated service delivery across spheres of government to improve the lives of very poor communities and enhance progress in selected geographical areas. While both programmes are coordinated by the Department of Provincial and Local Government, responsibility for their success lies with all the stakeholders.

Implementation will make use of existing capacity and develop new institutional, planning, management and funding mechanisms to focus the expenditure of national, provincial and local government to respond to needs of local areas more effectively and efficiently.

The structures and processes of the MTEF provide the mechanisms for reprioritisation of national and provincial departmental budgets while the Integrated Development plans of local government aid in planning across the three spheres of government. Additional funding may be derived from the delivery relationships that will be established at the local level. Sources will include the private sector, public-private partnerships, public enterprises and the donor community.

Source: Chapter 6, Budget Review 2002, Republic of South Africa, National Treasury.

## 1.3 Funding Urban Renewal

- 1.3.1 To improve urban nodes, provinces and municipalities must either source capital investments themselves or attract private partners to provide the investments required.

<sup>1</sup>

Province	Eastern Cape	Gauteng	KwaZulu Natal	Northern Cape	Western Cape
Urban Nodes	Mdantsane Motherwell	Alexandra	Inanda Kwamashu	Galeshewe	Khayalitsha Mitchell's Plain

### 1.3.2 Municipalities can source their investment requirements from one of four sources:

- National government through intergovernmental transfers, normally grant funds.
- Local taxes such as those on property or businesses.
- User charges such as tariffs and connection fees.
- Borrowing through loans or the floating of bonds.

1.3.3 Public-private partnerships (PPPs) involve indirect access to capital, where municipalities enter agreements with private partners to finance all or part of the investments needed. The credit rating of the private partner can sometimes make finance available at a lower cost than for government. Furthermore, the operational efficiencies of the private sector can often lower financing costs. However, many people believe that PPPs can only lead to the development of a portion of local infrastructure. Municipalities will need to raise their own capital for urban renewal.

1.3.4 One additional source of investment would be through the contributions of the beneficiary communities themselves. In many parts of the developing world, low-income communities do make cash or in-kind contributions towards local infrastructure investments. This not only raises additional revenues but also encourages full community ownership of the assets created. Maximum direct participation of communities should be encouraged.

## 2. INTERGOVERNMENTAL TRANSFERS FOR URBAN RENEWAL PROJECTS

### 2.1 Intergovernmental Transfers

#### Background

2.1.1 Intergovernmental transfers comprise an equitable share of revenue raised nationally and conditional grants to provinces and municipalities. Overall amounts for the equitable shares and for conditional grants are legally mandated under the Division of Revenue Act (DORA), which is approved each year by Parliament as part of the annual budgeting process of national government. This supports Section 214 of the Constitution, which requires that an annual Act of Parliament must determine the equitable distribution of nationally raised revenue vertically between the spheres of government and horizontally amongst provinces. Table 1, from the 2002 DORA, shows the division of revenue amongst the levels of government.

**Table 1: Division of Revenue, 2002/03 to 2004/05**

Allocation	Rand Billions		
	2002/03	2003/04	2004/05
National Allocation (less debt service and reserves)	96.1	103.3	109.9
Provincial Allocations	132.4	142.9	152.4
Equitable Share	119.4	128.5	137.1
Conditional Grants	13.0	14.4	15.3
Local Government	8.6	10.2	10.8
Equitable Share	3.9	5.0	5.4
Conditional Grants	4.7	5.2	5.4
Total	237.1	256.4	273.1

- 2.1.2 Transfers to the provincial and local governments are passed through the budgets voted to national departments responsible for specific functions. In the 2002/03 DORA over 25 allocations are programmed through at least 10 national agencies, including 7 infrastructure grant funds to local government passing through 5 national agencies with a total budget of about R2.3 billion. Another 5 grant funds support the development of capacity in local governments provide an additional R 740 million.
- 2.1.3 The increase of specific infrastructure grant funds to local governments through national agencies was deemed necessary because of the complex and time consuming process of amalgamating and demarcating new local governments. This process is now complete. The rationale for multiple infrastructure grant funds to local governments no longer exists and the National Treasury proposes to improve the efficiency and effectiveness of intergovernmental transfers by consolidating the existing grants. Changes to the system are taking place as experience grows with the administration and use of such funds.

## Types of Transfers

- 2.1.4 There are three overall types of inter-government transfers from the national government to provincial governments and municipalities:
- The equitable share for provincial and local government. The equitable share for provinces reflects the services mandated and is divided amongst each province according to a formula that comprises seven components<sup>2</sup>. These capture the relative demand for services between provinces and adjust for particular local circumstances. For the municipalities the formula consists of two components, an institutional grant<sup>3</sup> to support administrative capacity and a basic services grant<sup>4</sup> to support the operating costs of basic services to low-income households and more recently to weight these fiscal resources towards the identified nodal areas.
  - Conditional transfers (grants) for capital investment, largely infrastructure. For the provinces these mainly cover infrastructure and housing. Transfers to the municipalities are for municipal infrastructure (under the Consolidated Municipal Infrastructure Program (CMIP) Grant) and public works, local economic development, urban transport, sports and recreation, water supply and electricity.
  - Conditional transfers (grants) for recurrent expenditures. These can be cash or in-kind and for municipalities cover those for capacity building, local government restructuring and water supply and sanitation operations. For provinces these relate to aspects of health and education provision, poverty alleviation and assistance to local governments.

A more detailed description of the various grants is given in **Appendix 1**.

- 2.1.5 By far the largest source of conditional grant to the municipalities is CMIP, which has been budgeted at R1.7 billion for financial year 2002/03 and is projected to rise to R2.4 billion in 2004/05. Table 2 shows the amounts allocated to local government under the CMIP along with other conditional grants. In addition there are CMIP grants to provinces that finance municipal and provincial capacity building to manage CMIP more effectively. In 2002/03, a total of some R104.5 million has been allocated to the

<sup>2</sup> The components are: (i) an education share; (ii) a health share; (iii) a social security component; (iv) a basic share reflecting population; (v) as backlog component; (vi) an economic output component and (vii) an institutional component.

<sup>3</sup> Often called the I grant.

<sup>4</sup> Called the S grant

provinces. This is expected to rise to R 110.7 million in 2003/04 and to R117.4 million in 2004/05.

**Table 2: Conditional Grants to Local Governments**

Conditional Grant	Rand Billions		
	2002/03	2003/04	2004/05
CMIP	1.7	2.1	2.4
Other Infrastructure Grants <sup>5</sup>	1.6	1.8	1.6
Sub-total (Capital Transfers)	3.3	3.9	4.0
Grants in kind/Indirect and Recurrent Transfers <sup>6</sup>	1.4	1.3	1.4
Total	4.7	5.2	5.4

Source: Division of Revenue Bill, 2002, Table E18 and Schedules 5 and 6.

## 2.2 Current Policy

- 2.2.1 Current policy of the government does not aim to create new grants or transfers for urban renewal projects. This supports a policy to consolidate the conditional grants where possible. Following these principles, central transfers for the development and improvement of services in the urban nodes, are to be made through participating departments under their normal budgets and current programmes, including the use of the conditional grants and the equitable share intergovernmental transfers to provinces and municipalities. Boxes 2 and 3 outline the government's policy directions towards intergovernmental transfers.

### Box 2:

#### Changing Emphasis in Intergovernmental Transfers to Provinces

National transfers to provinces for budget year 2002/03 are projected to make up more than 96 percent of provincial revenues. Of this amount about 90 percent is through the equitable share. The remaining 10 percent represents conditional grants forming a significant portion of provincial revenues. Conditional grants were introduced in 1998/99 to support national priorities, especially those in the social services sectors.

Current thinking on the framework for provincial conditional grants addresses problems, which have emerged. The approach is now to: limit the number of conditional grants to areas not funded under the equitable share; eliminate small conditional grants; incorporate grants into the normal budgeting process; provide best practise; and focus on outcomes rather than inputs for monitoring purposes.

The framework distinguishes between equitable shares and conditional grants, where the equitable share represents transfers made to enable provinces to provide basic services and nationally agreed priorities associated with constitutionally mandated functions including school education, health and social services. The framework also distinguishes between block grants and specific purpose grants:

- Block grants provide recurrent funding for assigned or specialised functions and include National Tertiary (Health) Services and Health Professional Training grants.
- Special purpose grants have strong conditionalities, often to fund national priorities and are used to influence the way in which services are delivered through conditions imposed by a national department. Examples are the provincial infrastructure, housing subsidy, educational financial management and HIV/Aids grants.

<sup>5</sup> Consolidated total for allocation to Water Services Projects Grant, Community Based Public Works Programme Grant, Local Economic Development Fund Grant, Building for Sports and Recreation Programme Grant, National Electrification Programme Grant, Urban Transport Fund Grant, Integrated Sustainable Rural Development Programme Grant.

<sup>6</sup> Financial Management Grant, Local Government Restructuring Grant, Municipal Systems Improvement Grant, Local Government Transitional Grant, Poverty Alleviation Grant, Schools as Centres for Community Development Grant, National Ikhwelo Projects Grant, Poverty Relief Grant, and Water Services Operating Subsidy Grant.

**Box 3:**  
**Improving the System of Capital Transfers to Municipalities**

Recent work on municipal infrastructure grants has identified the need to rationalise the number of grants and improve mechanisms for disbursement. Rationalisation involves the incorporation of other capital grants into CMIP by 2004/05. These other grants include the Community Water Supply and Sanitation programme, Community Based Public Works Programme, Urban Transport Fund and Local Economic Development Fund. CMIP has been transformed from a project-based to a formula-based mechanism in 2001/02 financial year. It will provide the framework for one capital infrastructure grant governed by an independent team. The scope of CMIP too is to be expanded to cover the rehabilitation of existing infrastructure and infrastructure extension. It is no longer restricted to bulk and connector infrastructure, although it continues to support housing programmes.

- 2.2.2 At the provincial and city levels, existing funding sources are being used for the urban nodes. For example, the City of Johannesburg is spending through its line departments, utilities, agencies and corporations under their current programmes. Gauteng Provincial government is the major source of funds at present, through the use of housing subsidies and line items for Alexandra Renewal Project (ARP) included under the Housing Vote. Grants under the Human Resettlement and Redevelopment Programme are also being used for the ARP. In addition, funds under CMIP have been released to ARP as part of the national allocation<sup>7</sup> of some R200 million to the urban nodes.
- 2.2.3 Operating expenditures, however, have been provided for under the 2002 DORA through the allocation of additional equitable share funds under the S grant. For budget year 2002/03 a new element has been introduced in the equitable share formula to allow for the prioritisation of the development of the nodes. Some R70.0 million has been allocated as additional funds to the urban nodes in 2002/03. The amount is programmed to increase to R74.2 million in 2003/04 and to R78.7 million in 2004/05. The breakdown between nodes is shown in Table 3.

**Table 3: Additional Funds to Urban Nodes Under the Equitable Share for Local Government**

Name	Municipality	Rand Millions		
		2002/03	2003/04	2004/05
Mdantsane	Buffalo City	13.01	14.01	15.30
Motherwell	Nelson Mandela	12.72	13.39	14.07
Alexandra	Johannesburg	11.56	12.15	12.72
Inanda	eThekweni	7.86	8.39	9.01
Kwamashu	eThekweni	6.11	6.52	7.00
Galeshewe	Kimberley	5.28	5.55	5.82
Khayalitsha	Cape Town	8.85	9.34	9.74
Mitchell's Plain	Cape Town	4.61	4.85	5.09
Total		70.00	74.20	78.75

Source: Table E16, Division of Revenue Bill, 2002

<sup>7</sup> These funds were allocated by the Department of Provincial and Local Government, but were not mandated specifically as such under the DORA.

### **3. FUNDING ALLOCATIONS FOR URBAN NODES**

#### **3.1 Division of Responsibilities**

- 3.1.1 Proposals are that government funding will be from each of the three spheres of government. National funds will be released through the equitable share and as conditional grants to the municipalities and as conditional grants for the provincial government investments required. In addition, municipalities would be expected to invest their own funds from local revenues, user charges and fees.
- 3.1.2 Quite clearly the investment funds would be included in the annual DORA and implicit in the amounts allocated as conditional grants. Funds for local governments too are included under the equitable share and these could be increased by adjusting the S grant to match projected financial requirements outlined under the business plans for the development each node.

#### **3.2 Two Options**

- 3.2.1 Supporting government policy towards rationalisation of the intergovernmental transfer system, it is not prudent to consider the creation of a new and dedicated source of funds for the development of the urban nodes. Hence, it has to be accepted that there can be no specific line item for the urban nodes under the conditional grants formula, although operating expenditures are to be supported under the equitable share. As shown above, it is expected that use be made of the existing system following normal budgeting procedures and amounts mandated under the DORA. But there is a clear need to ensure that adequate funds will be available for the nodes, based upon the expenditure projections made in the respective business plans for each node. It would be preferable if such allocations could be mandated under the DORA
- 3.2.2 This could be accomplished by adopting one of two approaches:
- *Option one:* The allocation of specific percentages or amounts for urban nodes for each relevant conditional grant on both a provincial level and per node where funds are to be released to municipalities.
  - *Option two:* Use of the proposed consolidated infrastructure grant.

#### **Option One: Mandatory Conditional Grant Allocations**

- 3.2.3 It is suggested that mandatory allocations of minimum percentages of each relevant grant are made towards each urban node under the respective provincial/municipal allocations. This would mean that criteria should be set in the DORA, which would determine how the percentage allocation to the urban nodes would be determined. The basis should be the financial resource estimates contained in the business plans for each node.
- 3.2.4 A list of the relevant transfers to the provinces where minimum allocations could be made for the urban nodes are as follows:
- National Tertiary (Health) Services Grant
  - Health Professions Training and Development Grant
  - Provincial Infrastructure Grant

- Financial Management and Quality Enhancement Grant
- Early Childhood Development Grant
- HIV/Aids (Lifeskills Education) Grant
- Hospital Revitalisation Grant
- HIV/Aids (Counseling and Testing) Grant
- Integrated Nutrition Programme Grant
- Hospital Management and Quality Improvement Grant
- Housing Subsidy Grant
- Human Resettlement and Redevelopment Pilot Programme Grant
- Provincial Consolidated Municipal Infrastructure Programme (CMIP) Grant
- HIV/Aids (Home Based Care) Grant
- Poverty Alleviation Grant
- National Ikhwelo Projects Grants
- Poverty Relief Grant

3.2.5 A list of the relevant transfers to the municipalities where such allocations could be made for the urban nodes are as follows:

- Consolidated Municipal Infrastructure Programme (CMIP).
- Local Economic Development Fund Grant.
- National Electrification Programme Grant.
- Urban Transport Fund Grant.
- Building for Sports and Recreation Programme Grant.
- Implementation of Water Services Projects (Capital) Grant.
- Implementation of Water Services Projects Grant.

3.2.6 Should the above approach be adopted, the indicative amounts to be allocated for urban nodes can be illustrated in respect of the Alexandra Renewal Project (ARP). They would not be a significant proportion of intergovernmental transfers during implementation. Estimates show that allocating 3 percent of the total amount planned under the 2002/03 budget and the MTEP for transfers to Gauteng Province as conditional grants would be sufficient to cover the planned expenditure to be funded by the province. Clearly this would vary across votes but the significance is that by mandating small percentages, sufficient funds would be assured for the project. Percentages at the local government level would be higher but this would largely represent allocations under CMIP, which according to government policy should be directed towards the urban and rural nodes.

## Option Two: Use of the Consolidated Infrastructure Grant

- 3.2.7 One major objective of the National Treasury is to design a consolidated infrastructure grant for local governments. A World Bank-funded technical assistance is to take place shortly to develop an analytical framework that will lead to design of and the formulation of the implementation arrangements for the consolidated grant. The new grant is expected to be a positive step forward by incentivizing improved performance at the local level. Accordingly, the design of the new grant is expected to meet both the equity objectives prescribed in the Constitution and introduce performance and demand response mechanisms for allocation. Funding the development of urban nodes clearly fits into this framework.
- 3.2.8 Nevertheless the consolidated grant does not exist at present and the timing of its introduction may not be until the 2003/04 financial year. Therefore, this may be more a medium term option than a current one.

## Use of Equitable Share

- 3.2.9 The total equitable share allocated to provincial and local governments under the DORA for financial year 2002/03 amounts to R123.3 billion and is projected to increase to R142.5 billion in 2004/05 financial year. The amounts allocated between levels of government are shown in Table 4. Equitable share funds are seen more to support operations than for capital investment

**Table 4: Division of Revenue Raised Nationally and Distributed Under the Equitable Share**

Provinces and Local Governments	Rand billions		
	2002/03	2003/04	2004/05
Provincial Government:	20.5	21.9	23.3
Eastern Cape	8.0	8.5	9.1
Free State	18.2	19.7	21.1
KwaZulu Natal	24.3	26.4	28.2
Mpumalanga	8.4	9.2	9.8
Northern Cape	2.9	3.1	3.3
Northern Province	16.2	17.5	18.6
North West	10.0	10.7	11.4
Western Cape	10.9	11.5	12.2
Subtotal (Provinces)	119.4	128.5	137.1
Local Government	3.9	5.0	5.4
Grand Total	123.3	133.5	142.5

Source: Schedules 1 and 2, Division of Revenue Bill 2002.

- 3.2.10 Only a small proportion of the above funds are likely to be needed to cover the incremental administration, operations and maintenance costs for the urban nodes. Additional equitable share funding has been allocated to the urban nodes (see Table 1) through the introduction of a new element into the S-grant. These amounts have been mandated in the DORA and continuation of this practise is suggested to ensure that all incremental operations and maintenance costs associated with the renewal of the urban nodes is included, at least during the earlier years of implementation.

### 3.3 Flow of Funds

3.3.1 Two options have been formulated, both supporting the principles enunciated above. Figure 1 shows an option that is based on current practise of departmental allocations. Key features are that:

- Departmental allocations are made for municipalities and province for the various central transfers or conditional grants for urban nodes.
- Within these departmental allocations, a specific percentage or amount would be allocated for urban nodes at the provincial and municipal level, based on the approved business plan projections.
- Line items for the concerned urban node are provided in the votes for each department.
- Funds are managed by the Programme Offices of the concerned urban node.

3.3.2 Figure 2 shows the case where the amounts mandated under the various conditional grants for urban nodes are consolidated through one national department, passed on to the provinces and municipalities and allocated according to the business plan expenditure estimates. Key features are:

- Consolidation of the amounts of conditional grants mandated for urban nodes to the budget of the Department of Provincial and Local Government<sup>8</sup>.
- Releases made to the provincial and local governments.
- Funds are managed by the Programme Offices of the concerned urban node.
- Funds are accounted for according to department responsible for managing the various conditional grants.

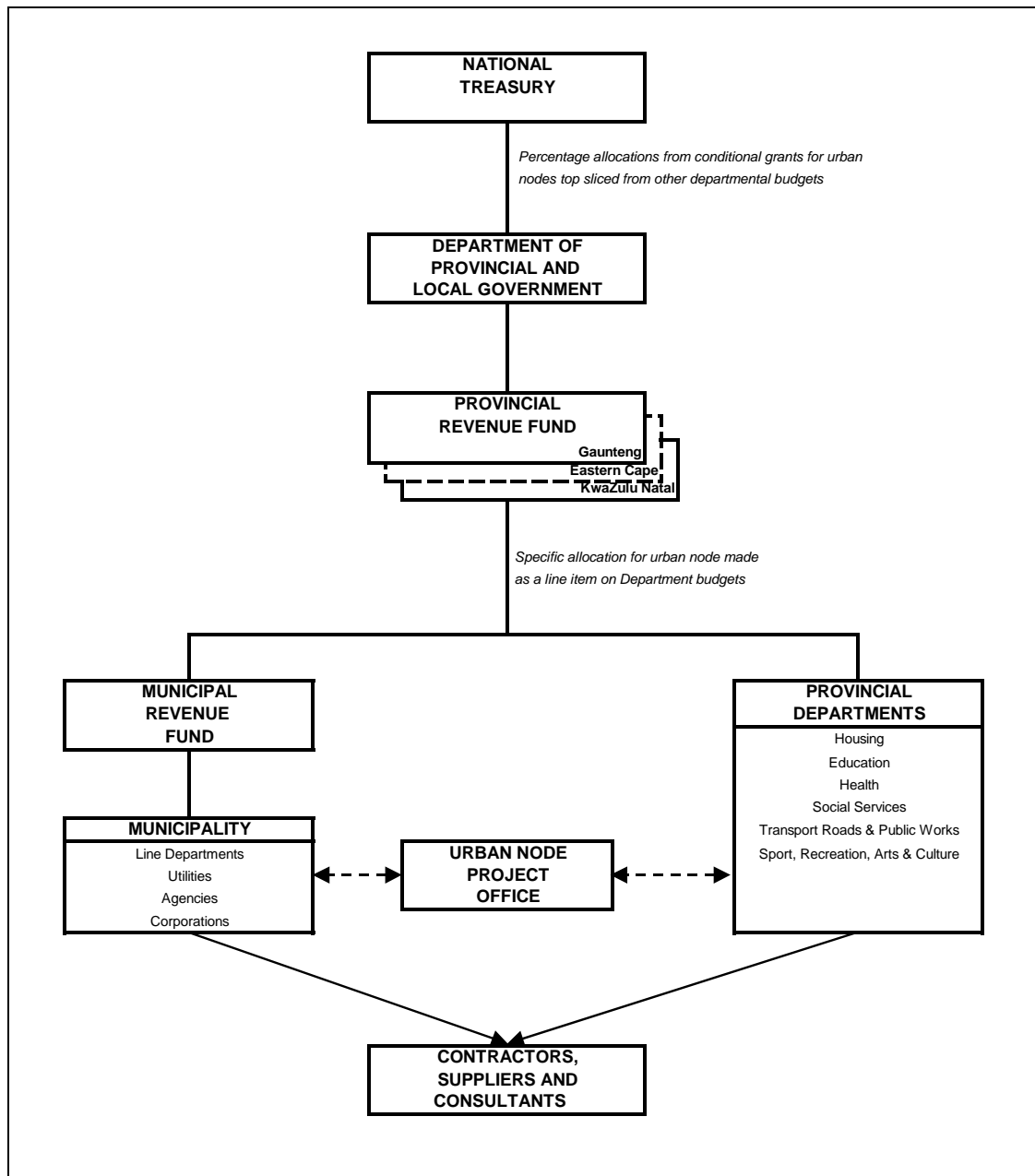
3.3.3 The simplest approach for the urban nodes is likely to be option 2 supporting the medium-term solution once a consolidated infrastructure fund has been established.

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<sup>8</sup> Could possibly be the Department of Housing, but the more multi-sectoral mandate of the Department of Provincial and Local Government makes this the preferred choice.



**Figure 2:**  
**URBAN NODES - FLOW OF CAPITAL INVESTMENT FUNDS: OPTION TWO**



## 4. RECOMMENDATION AND THE NEXT STEPS

### 4.1 Recommendations

4.1.1 On the basis of the discussion presented earlier, the following recommendations can be made:

- That allocations of grant funds for urban renewal nodes be incorporated in the DORA, by indicating a minimum percentage of funds to be allocated from each pertinent grant source for those urban nodes with approved business plans.
- Once the consolidated infrastructure grant is operational, develop criteria for the equitable allocation of funds for urban nodes according to the demand of the respective business plans of each.
- That additional allocations be made under the equitable share formula to finance incremental operations and maintenance expenditures resulting from the improvement of public infrastructure, facilities and services under the urban renewal programme.

### 4.2 Next Steps

4.2.1 To develop the concept further, additional work should be completed by the urban node design and implementation teams. This covers:

- Completion of business plans for each urban node, with detailed project cost estimates.
- Preparation of overall financial plan showing the sources of funds for each programme and major project. **Appendix 2** shows the summary format for presentation.
- Preparation of incremental operations and maintenance cost schedules for assets developed and programmes implemented under the urban renewal programme and establish the additional equitable share funding needed to support such expenditures.

4.2.2 Agreement is needed between the urban nodes on the way forward and approval for the approach should be sought. The involves:

- Preparation of a joint concept paper on the proposed funding arrangement by the project managers of the urban nodes. Target date: May 31, 2002.
- Securing agreement to the approach by the concerned provincial and local governments. Target date: June 30, 2002.
- Holding discussions with the National Treasury and Department of Provincial and Local Government on the approach. Target date: July 31, 2002.
- Finalising agreement between concerned provinces, municipalities and the National Treasury. Target date: August 31, 2002.
- Incorporation in 2003/04 budget documentation.



# Public Financing for the Renewal of Urban Nodes

Workshop on Funding Urban Nodes

May 20<sup>th</sup> 2002

Johannesburg

Presented by

Royston A. C. Brockman



# Purpose of Paper



- ◆ Presentation of an approach towards allocating intergovernmental transfers for urban renewal.
- ◆ Concept paper for discussion purposes.
- ◆ February 2001, President announced urban renewal programme.
- ◆ No specific funding source identified.



# Funding Urban Renewal



- ◆ National government through inter-governmental transfers.
- ◆ Local taxes, including property tax.
- ◆ User charges – tariffs.
- ◆ Borrowing – loans and bonds.
- ◆ Public-private partnerships.
- ◆ Beneficiary contributions.



# Intergovernmental Transfers



- ◆ Equitable share for provinces and municipalities.
- ◆ Conditional grants for capital investment.
  - Provinces (Infrastructure and housing).
  - Municipalities (CMIP, LED, Transport, Water Supply, Electricity, Sport & Recreation).
- ◆ Conditional transfers for recurrent expenditures
  - Capacity building, restructuring, water supply operations, etc. for municipalities.
  - Health and education for provinces.



# Current Policy



- ◆ No new grants or intergovernmental transfers – consolidation of those that remain.
- ◆ Existing sources to be used, directive to prioritise investments in nodes.
- ◆ Some specific allocation of CMIP – R200m.
- ◆ Allocation of R200m. under equitable share for operations.



# Funding Options



- ◆ Capital investment:
  - Mandatory conditional grant allocations under each relevant transfer.
  - Consolidated infrastructure grant for which a technical assistance is to be undertaken.
- ◆ Planning and Operations:
  - Equitable share through the S-grant.



# Flow of Funds



- ◆ Follow current practise of separate departmental allocations which are passed down.
- ◆ Consolidation of amounts mandated under one national department and passed on to provinces and municipalities.



# Recommendations



- ◆ Allocations of grant funds be incorporated in DORA by indicating minimum percentage of funds from each grant source to urban nodes with approved business plans.
- ◆ Use consolidated infrastructure grant once established and develop criteria for allocation.
- ◆ Mandate additional allocation under equitable share for incremental operations and maintenance.



# Next Steps

- ◆ Further the concept:
  - Complete business plans for each urban node.
  - Prepare overall financial plan.
  - Estimate incremental operations/maintenance costs.
- ◆ Agree approach:
  - Joint concept paper – May 31
  - Agreement of provinces and municipalities – June 30
  - Discuss concept with National treasury – July 31
  - Final agreement - August 31
  - Incorporate into DORA for financial year 2003/04

Republic of South Africa  
Gauteng Provincial Government Department of Housing  
City of Johannesburg  
United States Agency for International Development

**Technical Assistance to the Urban Renewal Programme,  
South Africa**

# **PUBLIC FINANCING FOR THE RENEWAL OF URBAN NODES: A CONCEPT PAPER**

Royston A. C. Brockman  
Director



International

May, 2002

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## **1. INTRODUCTION**

### **1.1 Purpose of Paper**

- 1.1.1 This paper summarises the preferred approach towards the allocation of intergovernmental transfers to provincial and local governments for the renewal of the urban nodes. It sets out the funding principles to be agreed with the National Treasury. These principles were developed from the findings of a consultative workshop<sup>1</sup> held between the representatives of the three spheres of government.
- 1.1.2 The workshop was held specifically to discuss issues pertaining to the allocation of funds for the urban renewal programme. Recommendations made, however, do not negate the need for municipalities to attract other funds, including those from the private sector, to use tax and other revenues for improvement or to borrow for capital investment projects against expected revenues.

### **1.2 Background**

- 1.2.1 In February 2001, the President announced the creation and upgrading of urban and rural nodes under the *Integrated Sustainable Rural Development Programme* and *Urban Renewal Programme*. The programmes are designed to promote coordinated service delivery across government to improve the lives the poor and enhance the development of selected communities. The Department of Provincial and Local Government coordinates both programmes, but responsibility for implementation rests with the stakeholders. Implementation uses existing capacity and develops new institutional, planning, management and funding mechanisms that focus national, provincial and local government expenditure towards these identified nodes.
- 1.2.2 The structures and processes of the medium-term expenditure framework (MTEF) are intended to provide the mechanisms for reprioritisation of national and provincial departmental budgets while the integrated development plans of local government aid in planning across the three spheres of government. Additional funding may be derived from arrangements established at the local level. The principal of gearing additional investment from both provincial and local government revenues, through borrowing, public-private partnerships and equity contributions from the beneficiary communities is paramount to the success of the programme. Nevertheless, major national and local government funding is required.

## **2. THE ISSUES**

### **2.1 Intergovernmental Transfer System**

- 2.1.1 Intergovernmental transfers comprise an equitable share of revenue raised nationally and conditional grants to provinces and municipalities. Overall amounts for the equitable shares and for conditional grants are legally mandated under the Division of Revenue Act (DORA), which is approved each year by Parliament as part of the annual budgeting process of national government. This supports Section 214 of the Constitution, which requires that an annual Act of Parliament must determine the

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<sup>1</sup> Public Financing for the Renewal of Urban Nodes, Workshop held at the Civic Theatre, Johannesburg on May 20<sup>th</sup> 2002. Participants included representatives from the Department of Provincial and Local Government; Gauteng, Western Cape, Eastern Cape and Northern Cape Provincial Governments; and the Municipalities of Johannesburg, Cape Town and Buffalo City.

equitable distribution of nationally raised revenue vertically between the spheres of government and horizontally amongst provinces.

- 2.1.2 Transfers to provincial and local governments are passed through the budgets voted to national departments responsible for specific functions. In the 2002/03 DORA over 25 allocations are programmed through at least 10 national agencies, including 7 infrastructure grant funds to local government passing through 5 national agencies with a total budget of about R2.3 billion. Another five grant funds that support the development of capacity in local governments provide an additional R 740 million.
- 2.1.3 The large number of infrastructure grant funds to local governments through national agencies was considered necessary because of the complex process of amalgamating existing and demarcating new local governments. Since this process is now complete, the rationale for multiple infrastructure grant funds to local governments no longer exists. National Treasury, instead, proposes to improve the efficiency and effectiveness of intergovernmental transfers by consolidating existing grants.
- 2.1.4 There are three categories of inter-government transfers:
- The equitable share for provincial and local government. For provinces, this reflects the cost of services mandated and is divided amongst each province according to a formula that comprises seven components<sup>2</sup>. These capture the relative demand for services between provinces and adjust for particular local circumstances. For the municipalities the formula consists of two components, an institutional grant to support administrative capacity and a basic services grant to support the operating costs of basic services to low-income households and more recently to weight these fiscal resources towards the identified nodal areas.
  - Conditional transfers (grants) for capital investment, largely infrastructure. For the provinces these mainly cover infrastructure and housing. Transfers to the municipalities are for municipal infrastructure, particularly under the Consolidated Municipal Infrastructure Program (CMIP) grant, public works, local economic development, urban transport, sports and recreation, water supply and electricity. By far the largest source of conditional grant to the municipalities is CMIP, which has been budgeted at R1.7 billion for financial year 2002/03 and is projected to rise to R2.4 billion in 2004/05.
  - Conditional transfers (grants) for recurrent expenditures, which can be cash or in-kind. For municipalities, they cover capacity building, local government restructuring and water supply and sanitation operations. For provinces they relate to health and education provision, poverty alleviation and assistance to local governments.

## **2.2 The Problem**

- 2.2.1 Current policy of the government will not permit the creation of new grants or transfers for any purpose, including urban renewal. This supports policy to consolidate conditional grants where possible. Hence, central transfers for the development and improvement of services in the urban nodes, have and will be made through participating departments under normal budgeting procedures. This applies to both conditional grants and the equitable share. Accordingly, at provincial and city levels, existing funding sources are being used for the urban nodes,

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<sup>2</sup> Specifically: (i) education share; (ii) health share; (iii) social security component; (iv) basic share reflecting population; (v) backlog component; (vi) economic output component; and (vii) institutional component.

although funds under CMIP have been released under a national allocation<sup>3</sup> of some R200 million to the urban nodes.

- 2.2.2 Nevertheless, operating expenditures have been provided under the 2002 DORA through the allocation of additional equitable share funds. For budget year 2002/03, some R70.0 million has been allocated as additional funds to allow for the prioritisation of the development of the urban nodes. This is programmed to increase to R74.2 million in 2003/04 and to R78.7 million in 2004/05. However the equitable share is an unconditional grant, which can be used by provinces and municipalities as they chose. Whether its use for urban renewal can be mandated under the DORA is doubtful.
- 2.2.3 Pronouncements have been made that national government will be providing funds for the urban renewal programme, which will be topped up by provincial and local government sources. In many instances, local government and the provinces have considered the national commitment to be over and above normal releases through the intergovernmental transfer system. In some cases local funds for urban renewal have not been forthcoming since it has been assumed that these will be released by the national government as its commitment under the programme.
- 2.2.4 To date, intergovernmental transfers used to fund urban renewal largely have been made through the housing subsidy mechanism, the human resettlement and redevelopment pilot programme grant and the CMIP grant<sup>4</sup>. Releases have been more on an ad hoc than a systematic basis and have largely depended on the diligence of the urban node teams. Hence, there is no systematic way of prioritising funds for the urban nodes and each nodal team is forced to access grant funds in the normal way through the budgeting system. Competition for resources with other priority programmes is common. This leads to uncertainty for the urban nodes over the amounts that are likely to be available under the MTEF.
- 2.2.5 The current picture is one where specific block intergovernmental transfers for urban nodes are not possible. Clearly a mechanism is needed to ensure that appropriate capital investment funds are available for investment in the urban nodes according to the development programmes outlined in the business plans. Furthermore to ensure sustainability of the investments, assurances are needed that appropriate funds are available to administer these ongoing programmes and ensure proper maintenance and operations of the created assets.

### **3. FUNDING ALLOCATIONS FOR URBAN NODES**

#### **3.1 Division of Responsibilities**

- 3.1.1 As shown above, funding to develop urban nodes will be made available from each of the three spheres of government. National funds will be released through the equitable share and as conditional grants to the municipalities and provincial governments. Supporting this, municipalities are expected to invest their own funds.

<sup>3</sup> These funds were allocated by the Department of Provincial and Local Government, but were not mandated specifically as such under the DORA.

<sup>4</sup> For example, under the Alexandra Renewal Project (ARP), the City of Johannesburg is spending through its line departments, utilities, agencies and corporations under their current programmes. Gauteng provincial government is the major source of funds at present, through the use of housing subsidies and a line item for ARP included under the Housing Vote. Grants under the human resettlement and redevelopment pilot programme have also been used.

- 3.1.2 Quite clearly the intergovernmental transfers for capital investment within urban nodes will be included in the annual DORA and implicit in the amounts allocated as conditional grants. Incremental operations and administrative costs for urban nodes would be included under the equitable share and could be increased by adjusting the basic services grant to match projected financial requirements outlined under the business plans for each node. It would then be up to each municipality to use these funds for their urban nodes.
- 3.1.3 Supporting government policy towards rationalisation of the intergovernmental transfer system, it is not prudent to consider the creation of a new and dedicated source of funds for the development of the urban nodes. Accordingly, there will not be a specific conditional grant for urban renewal, although operating expenditures may be supported under the equitable share. Nevertheless there is a clear need to ensure that adequate funds will be available for capital investment within the urban nodes. It would be advantageous if such allocations could be mandated under the DORA

## **3.2 The Approach**

- 3.2.1 The basic approach would be first to allocate specific percentages or amounts for investment in urban nodes by provinces and municipality. These mandatory allocations would be made for each relevant grant for each urban node under the respective provincial/municipal allocations. This would mean that criteria would be set in the DORA, which would determine how the allocations to the urban nodes would be determined. Logically, the basis should be the financial resource estimates contained in the business plans for each node. This alternative follows the current practise of departmental allocations. Key features are that:
- Departmental allocations would be made for municipalities and province for the various central transfers or conditional grants for urban nodes.
  - Within these departmental allocations, a specific percentage or amount would be allocated for urban nodes at the provincial and municipal level, based on projections contained in the approved business plan.
  - Line items for the concerned urban node would be provided in the votes for each department.

Housing subsidy and social services grants funding from the provinces would be mandated and allocated in the same manner to the urban nodes.

- 3.2.2 Second, would be to consolidate the infrastructure allocations into one grant. A major objective of the National Treasury is to design a consolidated infrastructure grant for local governments. A World Bank-funded technical assistance is to take place shortly to develop an analytical framework that will lead to design of and the formulation of the implementation arrangements for the consolidated grant. The new grant is expected to be a positive step forward by encouraging improved performance at the local level. Accordingly, the design of the new grant is expected to meet both the equity objectives prescribed in the Constitution and introduce performance and demand response mechanisms for allocation. Funding the development of urban nodes clearly fits into this framework. Although the consolidated grant does not exist at present, its introduction is likely to be for the 2003/04 budget. Under such an arrangement, the amounts mandated under the various infrastructure conditional grants for urban nodes would be consolidated through one national department, passed on to the provinces and municipalities and allocated according to the

business plan expenditure estimates. To encourage the mobilisation of additional local resources, the assignment of matching funds<sup>5</sup> from the municipalities would be made a condition for the allocations. Key features would be:

- Consolidation of the amounts of the infrastructure conditional grants mandated for urban nodes under the budget of the Department of Provincial and Local Government.
- Releases would be made to the provincial and local governments.
- Municipalities would allocate matching funds.
- The concerned urban node teams would manage funds.

## **4. RECOMMENDATIONS AND THE NEXT STEPS**

### **4.1 Recommendations**

4.1.1 On the basis of the discussion presented earlier, the following recommendations can be made:

- That allocations of grant funds for urban renewal nodes be incorporated in the DORA, by indicating a minimum percentage or amount of funds to be allocated from each pertinent grant source for those urban nodes with approved business plans.
- Provincial housing subsidy and social services allocations would follow the same approach.
- That the specific infrastructure allocations for urban renewal should be consolidated into one unified grant under the budget of the Department of Provincial and Local Government (DPLG). Municipalities would allocate matching funds.
- That additional allocations be made under the equitable share formula to finance incremental operations and maintenance expenditures resulting from the improvement of public infrastructure, facilities and services under the urban renewal programme.

### **4.2 Next Steps**

4.2.1 To support the proposed approach, each urban node design and implementation team should:

- Complete business plans for their node, incorporating detailed project cost estimates.
- Prepare an overall financial plan showing the sources of funds for each programme and major project.
- Prepare estimates of incremental operations and maintenance cost schedules for assets developed and programmes implemented under the urban renewal

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<sup>5</sup> The proportion will have to be determined later. Perhaps a 60:40 ratio in favour of national funds would be appropriate.

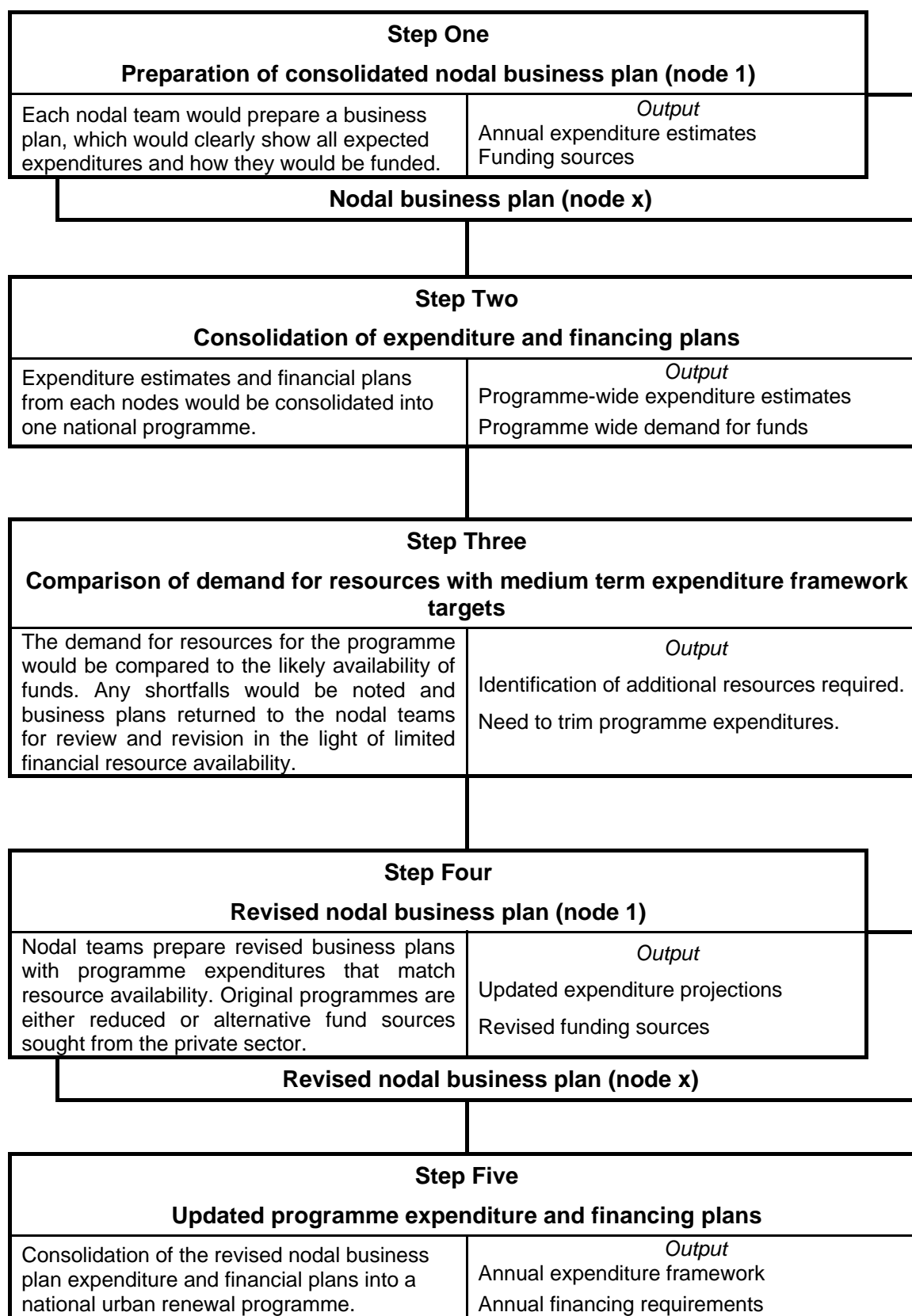
programme and establish the additional amount of equitable share funding needed to support such expenditures.

4.2.2 DPLG should consolidate the funding estimates of each urban node and compile a programme wide investment and funding plan.

4.2.3 Agreement is needed between the national, provincial and local governments on the way forward and formal approval should be sought. This involves action by DPLG to:

- Finalise this concept paper on the proposed funding arrangement. Target date: May 31, 2002.
- Secure agreement to the approach by the concerned provincial and local governments. Target date: June 30, 2002.
- Hold discussions with the National Treasury on the approach and incorporate relevant concerns. Target date: July 31, 2002.
- Finalise the agreement between concerned provinces, municipalities and the National Treasury. Target date: August 31, 2002.
- Use the approach to allocate funds to urban nodes in the 2003 DORA for budget year 2003/04.

## PROGRAMME FINANCIAL PLANNING PROCESS



**Figure 1:**  
**URBAN NODES - FLOW OF CAPITAL INVESTMENT FUNDS: OPTION ONE**

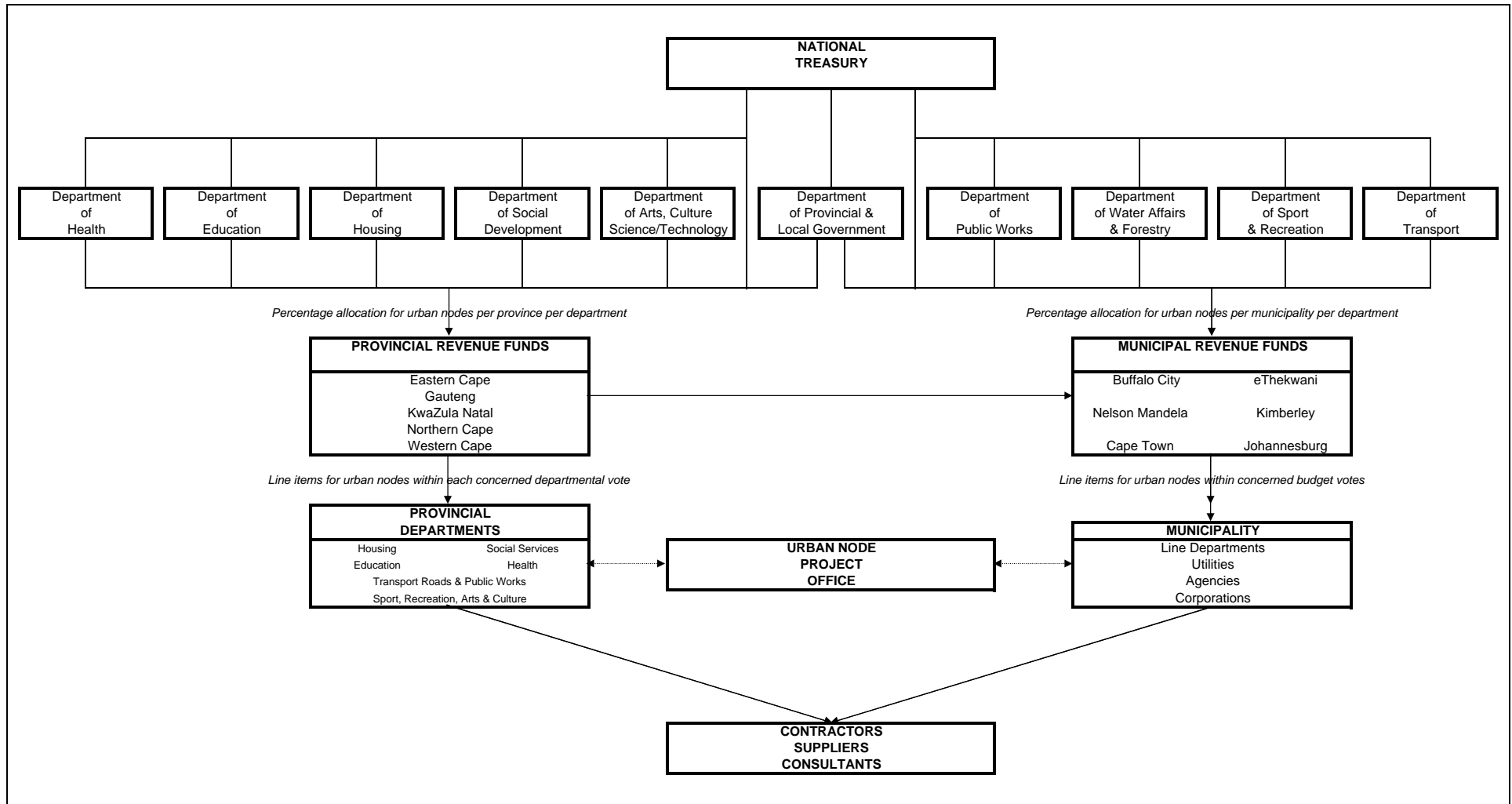


Figure 2: ALEXANDRA RENEWAL PROJECT - ORGANISATIONAL FRAMEWORK

